



2 Undervalued Financial Stocks

Description

As a contrarian value investor, I seek to identify companies that are unfairly valued by the market compared to their intrinsic value. In many cases this valuation disconnect arises because the industry in which the company operates has fallen into disfavor with investors, there is an overblown perception of risk, or the market fails to fully understand the company's true worth.

Let's take a closer look at three companies in the financial sector I believe are trading at a discount to their intrinsic value.

Laurentian Bank of Canada

Canada's ninth largest bank by assets is the **Laurentian Bank of Canada** ([TSX: LB](#)). Despite seeing its share price rise 5% for the year-to-date, it continues to lag behind the share price performance of its larger peers. But the bank appears attractively priced to those peers, with a price-to-book ratio of just over 1, indicating the market has yet to recognize its true intrinsic value.

This can be attributed in part to a perception of its being a higher risk investment than the top five banks, with its regulatory capital being a little on the low side with a tier 1 common equity ratio of 7.7%. But it continues to maintain a low-risk credit portfolio with gross impaired loans against total loans ratio of a mere 0.39%, which is particularly low.

Importantly, net income continues to grow strongly, up 29% for the second quarter 2014 compared to the previous quarter and 49% against the equivalent quarter in 2013. This allows Laurentian Bank to consistently pay a steadily appreciating dividend with a tasty yield of just over 4% coupled with a very sustainable payout ratio of 45%.

All of which indicates that over the long run, the bank offers solid potential upside for patient investors, who will continue to be rewarded by the tasty dividend yield.

Manulife Financial Corp.

Canada's largest life insurer **Manulife Financial Corp.** ([TSX: MFC](#))([NYSE: MFC](#)) appears attractively

priced with a price-to-book-ratio of 1.5 and forward PE of a mere 11 times earnings. Net income continues to grow strongly up 15% quarter-over-quarter and more than 2.5 times year-over-year on the back of stronger wealth and life insurance sales.

Manulife recently boosted its Canadian footprint with the acquisition of **Standard Life Canada**, which saw it acquire 1.4 million customers and strengthen its presence in Quebec, where it has been historically underrepresented.

Management's confidence in the outlook for Manulife was highlighted by its recent dividend hike, with the dividend shooting up 19% at the end of the second quarter, giving it a tasty yield of 2.8% coupled with a very sustainable and conservative payout ratio of 29%.

When the acquisition is considered in conjunction with the positive outlook for Manulife — including record mutual funds sales in the U.S. and growing net income — it is clear the market has yet to recognize its true value.

Both companies continue to see their value discounted by the market, yet they have solid businesses and continue to grow earnings, making them an attractive proposition for investors, particularly once their tasty dividend yields are taken into account.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:LB (Laurentian Bank of Canada)
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