Is Laurentian Bank of Canada the Top Small-Cap Bank Stock?

Description

Laurentian Bank of Canada (TSX:LB), one of Canada's largest financial institutions, announced better-than-expected second-quarter earnings results on the morning of June 3, and its stock has responded by rising over 1.5%. Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for it to subside.

Breaking down the better-than-expected results

Here's a summary of Laurentian's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	$1.38	$1.30	$1.29
Revenue	$220.68 million	$216.53 million	$216.89 million

Source: Financial Times

Laurentian's adjusted earnings per share increased 7% and its revenue increased 1.7% compared with the second quarter of fiscal 2014. The company's very strong earnings-per-share growth can be attributed to its adjusted net income increasing 7.4% to $42.3 million, helped by its non-interest expenses decreasing 0.7% to $158.75 million.

Its slight revenue growth can be attributed to revenues increasing in two of its three major segments, including 3.4% growth to $151.75 million in its Personal & Commercial Banking segment and 8.7% growth to $19.13 million in its Securities & Capital Markets segment.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Total assets increased 4.8% to $37.66 billion

2. Total loans and acceptances increased 3.2% to $28.11 billion
3. Total deposits increased 5.1% to $24.96 billion
4. Average earning assets increased 3.7% to $30.63 billion
5. Adjusted return on common shareholders' equity improved 20 basis points to 12.1%
6. Book value per share increased 5.6% to $47.10

Laurentian also announced a 3.7% increase to its quarterly dividend to $0.56 per share, and the next payment will come on August 1 to shareholders of record at the close of business on July 2.

Should you buy shares of Laurentian Bank right now?

It was a great quarter overall for Laurentian Bank, so I think the post-earnings pop in its stock is warranted. I also think it could rise much higher from here because the stock still trades at very low valuations and because it has a very high dividend yield.

First, Laurentian's stock trades at just nine times fiscal 2015's estimated earnings per share of $5.43 and only 8.4 times fiscal 2016's estimated earnings per share of $5.78, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 10.2 and the industry average multiple of 13.4. Also, it trades at a mere 1.03 times its book value per share of $47.10, which is inexpensive compared with its market-to-book value of 1.06 at the conclusion of the year-ago period.

Second, Laurentian now pays an annual dividend of $2.24 per share, giving its stock a 4.6% yield at today's levels. The company has also increased its dividend 13 times since 2008, making it one of the top dividend-growth plays in the market today.

With all of the information provided above in mind, I think Laurentian Bank represents one of the best long-term investment opportunities in the financial sector today. Long-term investors should take a closer look and strongly consider beginning to scale in to positions.

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1. TSX:LB (Laurentian Bank of Canada)

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