3 Reasons Why Laurentian Bank of Canada Could Outperform the Market

Description

Laurentian Bank of Canada (TSX:LB), one of the largest financial institutions in Canada, has fallen about 1.5% in 2015, underperforming the TSX Composite Index's return of about 1%, but it has the potential to fill the gap and widely outperform from this point forward. Let's take a look at three reasons why this could happen and why you should be a long-term buyer today.

1. Its strong second-quarter growth could support a continued rally

On the morning of June 3 Laurentian Bank released better-than-expected second-quarter earnings results, and its stock has responded by rising over 3% in the trading sessions since. Here's a summary of eight of the most notable statistics from its report compared with the year-ago period:

1. Adjusted net income increased 7.4% to $42.3 million
2. Adjusted earnings per share increased 7% to $1.38, surpassing analysts' expectations of $1.30
3. Revenue increased 1.7% to $220.68 million, surpassing analysts' expectations of $216.53 million
4. Total assets increased 4.8% to $37.66 billion
5. Total loans and acceptances increased 3.2% to $28.11 billion
6. Total deposits increased 5.1% to $24.96 billion
7. Average earning assets increased 3.7% to $30.63 billion
8. Book value per share increased 5.6% to $47.10

2. Its stock trades at inexpensive forward valuations

At current levels Laurentian Bank's stock trades at just 8.9 times fiscal 2015's estimated earnings per share of $5.52 and only 8.4 times fiscal 2016's estimated earnings per share of $5.85, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 13.2 and its five-year average multiple of 10.2.

I think its stock could consistently command a fair multiple of at least 10, which would place its shares upwards of $55 by the conclusion of fiscal 2015 and upwards of $58 by the conclusion of fiscal 2016, representing upside of more than 11% and 17%, respectively, from today's levels.

3. It has a 4.55% dividend yield with a track record of increases

Laurentian Bank pays a quarterly dividend of $0.56 per share, or $2.24 per share annually, giving its stock a 4.55% yield at current levels. It is also very important to note that the company has increased its dividend 13 times in the last eight years, making it one of the top dividend-growth plays in the industry today, and its consistent free cash flow generation could allow for another increase in the first half of fiscal 2016.

Is there a place for Laurentian Bank in your portfolio?

I think Laurentian Bank could outperform the overall market going forward. Its strong second-quarter earnings growth could support a continued rally, its stock trades at very inexpensive forward valuations, and it has a 4.55% dividend yield with an extensive track record of increases. All Foolish investors should take a closer look and strongly consider initiating positions today.

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1. TSX:LB (Laurentian Bank of Canada)

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