



Laurentian Bank of Canada Beats Q3 Expectations: Is Now the Time to Buy?

Description

Laurentian Bank of Canada ([TSX:LB](#)), one of Canada’s largest financial institutions, announced better-than-expected third-quarter earnings results on the morning of September 2, but its stock responded by falling over 1% in the day’s trading session. Let’s take a closer look at the results to determine if this weakness represents a long-term buying opportunity, or a sign of things to come.

Surpassing expectations with ease

Here’s a summary of Laurentian Bank’s third-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Earnings Per Share	\$1.48	\$1.43	\$1.35
Revenue	\$226.64 million	\$225.56 million	\$219.65 million

Source: *Financial Times*

Laurentian Bank’s adjusted earnings per share increased 9.6% and its revenue increased 3.2% compared with the third quarter of fiscal 2014. The company’s near double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 6.9% to \$45.29 million, driven by 20.9% growth to \$36.22 million in its Personal & Commercial Banking segment and 9.8% growth to \$14.31 million in its B2B segment.

Its slight increase in revenue can also be attributed to growth in these two segments, including 5.5% growth to \$158.72 million in its Personal & Commercial Banking segment and 2.5% growth to \$54.55 million in its B2B segment.

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

1. Net interest income increased 4.2% to \$147.23 million
2. Other income increased 1.3% to \$79.41 million
3. Total assets increased 9% to \$39.56 billion
4. Total loans and acceptances increased 5.1% to \$28.66 billion
5. Total deposits increased 6.6% to \$25.8 billion
6. Book value per share increased 5.2% to \$47.45
7. Adjusted return on common shareholders' equity improved 50 basis points to 12.4%
8. Adjusted efficiency ratio improved 80 basis points to 71.1%

Laurentian Bank also announced that it will be maintaining its quarterly dividend of \$0.56 per share, and the next payment will come on November 1 to shareholders of record at the close of business on October 1.

Should you be a long-term buyer today?

It was a fantastic quarter overall for Laurentian Bank, and the results beat analysts' expectations, so I do not think the post-earnings drop in its stock was warranted. With this being said, I think the drop represents a great long-term buying opportunity, especially because the stock now trades at very inexpensive valuations and has a high dividend yield, which will amplify its potential returns going forward.

First, Laurentian Bank's stock trades at just 8.6 times fiscal 2015's estimated earnings per share of \$5.58 and only 8.2 times fiscal 2016's estimated earnings per share of \$5.82, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 10.2 and the industry average multiple of 12.5. It also trades at a mere 1.01 times its book value per share of \$47.45, which is a discount compared with its market-to-book value of 1.14 at the conclusion of the third quarter of fiscal 2014.

Second, Laurentian Bank pays an annual dividend of \$2.24 per share, which gives its stock a 4.7% yield at today's levels. The company has also increased its annual dividend payment for seven consecutive years, and it is currently on pace for 2015 to mark the eighth consecutive year with an increase, and its strong operational performance could allow this streak to continue for another eight years at least.

With all of the information above in mind, I think Laurentian Bank of Canada represents one of the best investment opportunities in the financial sector. All Foolish investors should take a closer look and strongly consider beginning to scale in to positions over the next couple of weeks.

CATEGORY

1. Bank Stocks
2. Investing

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1. TSX:LB (Laurentian Bank of Canada)

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