Laurentian Bank of Canada's Q4 Results Fail to Impress: What Should You Do Now?

Description

Laurentian Bank of Canada (TSX:LB), one of Canada's largest financial institutions in eastern Canada, announced fourth-quarter earnings results before the market opened on December 9, and its stock has responded by falling over 3%. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity or a warning sign to avoid the stock for the time being.

The results that failed to impress the market

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

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Adjusted Earnings Per Share	$1.44	$1.46	$1.39
Revenue	$231.65 million	$229.56 million	$221.42 million

Source: Financial Times

Laurentian's adjusted earnings per share increased 3.6% and its revenue increased 4.6% compared with the fourth quarter of fiscal 2014. Its slight earnings-per-share growth can be attributed to its adjusted net income increasing 3.6% to $44.13 million, primarily due to its net interest expenses decreasing 4.6% to $140.26 million.

Its strong revenue growth can be attributed to its revenues increasing in all three of its business segments, including 2.8% growth to $158.06 million in its Personal & Commercial segment, 11.1% growth to $57.72 million in its B2B segment, and 11.9% growth to $18.08 million in its Securities & Capital Markets 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 7.5% to $150.67 million
2. Other income decreased 0.4% to $80.98 million
3. Total assets increased 8.7% to $39.66 billion
4. Total loans and acceptances increased 9.7% to $30.09 billion
5. Total deposits increased 8.5% to $26.6 billion
6. Average earning assets increased 7.9% to $32.56 billion
7. Book value per share increased 1% to $46.33
8. Adjusted efficiency ratio improved 50 basis points to 70.8%

Laurentian also announced a 3.6% increase to its quarterly dividend to $0.58 per share, and the next payment will come on February 1, 2016 to shareholders of record at the close of business on January 4, 2016.

Should you buy Laurentian's stock on the dip?

It was a decent quarter overall for Laurentian Bank of Canada, but nothing really stood out as impressive, so I think the post-earnings drop in its stock is warranted. With this being said, I think the drop also represents a long-term buying opportunity, because the stock now trades at very inexpensive valuations and because it has a high dividend and is a dividend-growth play.

First, Laurentian's stock now trades at just 9.3 times fiscal 2015's adjusted earnings per share of $5.62 and only 8.8 times fiscal 2016's estimated earnings per share of $5.89, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 10.4 and the banking industry average multiple of 12.8.

I think the company's stock could consistently trade at a fair multiple of at least 10, which would place its shares around $59 by the conclusion of fiscal 2016, representing upside of more than 13% from today's levels.

Second, Laurentian now pays an annual dividend of $2.32 per share, giving its stock a 4.5% yield at today's levels. The company has also raised its annual dividend payment for eight consecutive years, and it is currently on pace for 2016 to mark the ninth consecutive year with an increase.

With all of the information provided above in mind, I think Foolish investors should consider using the post-earnings drop in Laurentian Bank's stock to begin scaling in to long-term positions.

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1. TSX:LB (Laurentian Bank of Canada)

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