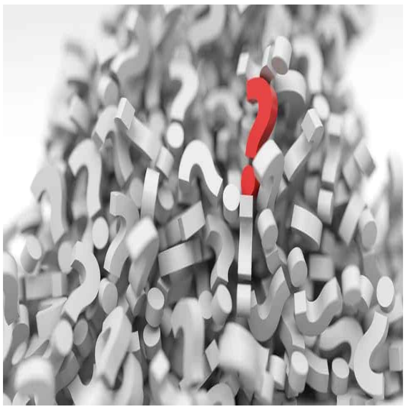

Is Laurentian Bank of Canada a Buy at These Levels?

Description

Several weeks ago, shares of **Laurentian Bank of Canada** (TSX:LB) were trading close to $58 per share, which aligned very well the amount of tangible book value reported on the company's balance sheet (dated April 30). As investors were getting value in the amount of the share price, many were excited.

Fast forward to this past Friday, shares closed at $52.40. With tangible book value around $58 per share, the discount is now close to 10% (calculated as (58-52.4)/58). For new investors not in the know, the tangible book value is essentially the value of the company which is calculated by taking all assets, removing all liabilities and all goodwill, and then dividing by the number of shares outstanding. At current levels, investors are receiving $1 for every $0.90 invested. That's a great deal!

To make the investment even more attractive, the capital held by the company is wrapped up in the operations of the business, which are making money for the company on an ongoing basis. During fiscal 2016 which ended October 31, the company made profit of $5.76 per share and paid dividends of $2.32 per share. Through the first half of fiscal 2017, the earnings have totaled $2.82, while dividends paid to shareholders have been $1.21 in total.

Considering the company's earnings and dividends, the payout ratio (calculated as dividends paid divided by total earnings) was approximately 40% during fiscal 2016 and increased to approximately 43% for the first half of 2017. Although the dividend has increased over the past year, the unfortunate news is that earnings per share have decreased when comparing the second quarter of 2017 to the same quarter one year ago.

Let's look at the total amount of shares outstanding; the company has increased the total number quite significantly over the past few years. On October 31, 2015 (2015 fiscal year end), the company had just under 29 million shares outstanding, which increased to almost 34 million shares at the end of fiscal 2016. Midway through fiscal 2017, total shares outstanding are now over 34 million.

Although the raising of new capital will contribute to the company's bottom line over time, there is often a lag time between the deployment of the capital to the long-term sustainable return to shareholders.

Effectively, if capital is raised for a new project, it could take several years of investment before the revenues begin to flow to the bottom line (and then back to shareholders).

An example of this is the building of a 40-story condo building. The builders may be incurring large interest expenses (revenues to the bank) while not paying the interest or the loan until the building is built and the sale of units begins to happen. While the project will be very lucrative for the investors involved, the reality is that making a profit sometimes takes a lot of time. Business — just like investing — is a lumpy process.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:LB (Laurentian Bank of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/07/21
Date Created
2017/06/05
Author
ryangoldsman