



Evaluating Canada's Regional Banks: Laurentian Bank of Canada

Description

Last week, we evaluated a number of factors for each of Canada's big banks which included the price-to-earnings (P/E) multiples, dividends, earnings, and return on equity (ROE). In spite of not being one of Canada's major banks, shares of **Laurentian Bank of Canada** ([TSX:LB](#)) still hold a market capitalization of slightly less than \$2 billion, and the bank serves a large number of Canadians.

The company, which operates mainly in eastern Canada, provides banking services to both individuals and companies. It is also the owner of B2B bank, which specifically serves business customers. Although this part of the business may not be well known to many, it is still a very valuable line of business for the company and investors alike.

The bank currently trades at a trailing P/E close to 12.5. Investors purchasing shares today will receive a dividend yield of no less than 4.5%. Since fiscal 2013, the dividends paid per share have increased from \$1.95 to \$2.32 in fiscal 2016. The compounded annual growth rate was slightly under 6%, while earnings over the same period grew at a rate of 3.1%. Given these uneven rates of growth, the dividend-payout ratio, which was a very healthy 37%, has grown to 40%. That's still a below-average number, but it's on the upswing, nevertheless.

The dividends paid per share for fiscal 2017 have continued to increase, totaling \$1.21 per share for the first half of the year.

When considering the company's ROE, the profit for fiscal 2013 was nothing less than \$124.68 million, and ending shareholders' equity was \$1.433 billion. The ROE (calculated as $124.68 / 1,433$) works out to 8.7%, which is well below the industry average. In consideration of the same number for fiscal 2016, investors will be disappointed to learn that the ROE declined to 7.7%.

Essentially, for every dollar used to capitalize the company, the amount of profit generated is no better than 7.7 cents. Given that the average ROE of Canada's bigger financial institutions is much higher, shares may not seem like a bargain.

Unlike the large banks, regional banks often trade in line to tangible book value — sometimes even at a discount. This means that shares can be bought for less than their liquidation value. Tangible book

value can be calculated as assets minus liabilities minus goodwill and then divided by shares outstanding. As of the most recent quarterly financial statements, the tangible book value per share is \$58.02 per share, while shares actually trade closer to the \$54 mark.

As it stands right now, the company trades at a discount to tangible book value by almost 7%. To make things even better, the money tied up in the company is still being used profitably, generating profits for shareholders.

Although the metrics used to evaluate the Canadian banks make the smaller banks much less attractive, it is important to remember that given the value on the balance sheet which supports each and every share, this investment may still be worth a look as it arguably comes with a lower amount of risk.

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