



## Dividend Investors: Is Laurentian Bank of Canada a Buy After a 7% Plunge?

### Description

Investors in **Laurentian Bank of Canada** ([TSX:LB](#)) shares had a memorable day when it released its fourth-quarter earnings report on December 5.

Even after reporting a quarterly profit that beat expectations with a big margin and raising its quarterly dividend, Laurentian shares tumbled the most they have since 2009. A piece of information that clouded this fantastic quarter was related to an audit which had found “documentation issues and client misrepresentations” on some mortgages it had sold to a third-party company.

This disclosure reminded investors of troubled [Home Capital Group Inc.](#), which nearly collapsed this spring after Ontario Securities Commission accused it of making misleading statements to investors about its mortgage underwriting business.

Laurentian Bank, however, said the problem it was facing was largely a paperwork issue and not a systemic risk to the bank’s loan book.

“No employees were implicated in any misrepresentations and the documentation issues appear to have been unintentional,” the bank said in an annual report filed after its results.

### Strong fourth-quarter earnings

Laurentian Bank runs a much smaller operation when compared to the Big Five lending institutions in Canada; it has a market capitalization of just over \$2 billion.

The company mainly operates in eastern Canada, providing banking services to both individuals and companies. It also owns B2B bank, which specifically serves business customers.

The audit disclosure on mortgage misrepresentations buried a very positive fourth quarter in which bank’s net income surged to \$58.6 million, or \$1.42 per diluted share, up from \$18.4 million, or \$0.45 per diluted share, a year ago.

Revenue for the three months ended October 31 totaled nearly \$268 million, up from \$236.4 million in

the same quarter last year.

On an adjusted basis, the bank says it earned \$66.5 million, or \$1.63 per diluted share, for the quarter, up from \$50.5 million, or \$1.47 per diluted share, a year ago. Analysts, on average, had expected a profit of \$1.55 per share, according to **Thomson Reuters**.

### Investor takeaway

The issues related to mortgage misrepresentation seems contained, affecting a small portion of the company's mortgage portfolio. According to the bank, it has excess cash to repurchase \$180 million in problematic loans in the near term from the third party, which it did not name.

And audits have found no evidence that staff did anything intentionally wrong and found no notable concentration of improper loans coming from any particular mortgage brokers.

Trading at \$56.54, Laurentian Bank stock offers an attractive 4.39% dividend yield with a quarterly payout of \$0.63 a share after an increase of one cent, which was announced with the results. Since fiscal 2013, the dividends paid per share have increased with a compounded annual growth rate of about 6%.

Despite an [attractive dividend yield](#) and a dip in its share price, I would wait to see if the federal bank regulator has something to say on the issue before taking any position. Once this issue is out of the way, I think the stock is a good buy for long-term investors.

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### Date

2025/07/22

### Date Created

2017/12/08

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