Laurentian Bank of Canada: With Others Fearful, Warren Buffett Would Say it's Time to Buy

Description

Investors tend to overreact to company news, whether it's good or bad information being passed along, making it difficult to know after the fact if the stock's a buy or a sell.

Laurentian Bank of Canada (TSX:LB) announced December 4 in its 2017 annual report that it had documentation issues with $89 million in residential mortgages it sold to a third party; it will be buying those back with another $124 million to be assessed over the next two months.

Even with the $124 million, it's just a little more than 1% of the bank's $18.5 billion residential loan book, so the question on everyone's mind is, did investors overreacted to the news?

If so, it provides a buying opportunity for those willing to accept the additional risk presented by the latest developments.

My colleague Joey Frenette quoted Warren Buffett in his December 6th article about the downside of owning Laurentian stock: "It takes 20 years to build a reputation and five minutes to ruin it."

Well, if he can trot out the Oracle of Omaha, so can I.

In September, I wrote a piece about why it made sense to buy **Equifax Inc.** (NYSE:EFX) after a data security breach hit the credit-reporting business, knocking US$5 billion off its market cap.

"Be greedy when others are fearful," I stated, channeling my best Warren Buffett. Equifax stock is up 12% since then, although it's got a long way to go to get back to $142, where it was trading in early September before the news hit.

It will get there; just not in 2017.

Laurentian's state of affairs

Laurentian's stock has only dropped 7% in three days of trading, so we're not talking about **Home Capital Group Inc.**

(TSX:HCG), a stock that I recommended to aggressive value investors in February that proceeded to unravel shortly after that.

This isn't anywhere close to the same situation.

Laurentian delivered pre-tax income in fiscal 2017 of $267 million, its best showing in the past decade on just less than $1 billion in revenue.

The transformation plan initiated two years ago by CEO Francois Desjardins is firmly taking hold; this latest situation will test the young CEO, but given he's been with the company since 1991, I doubt he'll have an issue fixing any lingering problems that resulted from the faulty mortgages.

Its 2020 goals all revolve around getting more competitive with the big banks, and so far the company is ahead of schedule on most of the metrics.

The big value lies in the bank's successful decertification of its union in Quebec in 2018. If that happens, the strides it's already made over the past two years, along with a union-free business, something none of the other banks have to worry about, will increase the potential price suitors are willing to pay for the bank.

Frankly, with a 4.5% yield and an intrinsic value that appears to be much higher than where it trades today, I'd seriously consider being greedy while others are fearful.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:EFX (Equifax Inc.)
2. TSX:HCG (Home Capital Group)
3. TSX:LB (Laurentian Bank of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/18
Date Created

2017/12/09
Author
washworth