Laurentian Bank of Canada and Canadian Western Bank: Buy the Dip and Avoid a Falling Knife?

Description

The S&P/TSX Index rose 66 points on March 8. Canadian bank earnings season coincided with geopolitical shifts and rising anxiety over interest rates, which have negatively affected investor sentiment. However, the announcement that Canada would be exempted from U.S. steel and aluminum tariffs coupled with the Bank of Canada holding steady on interest rates could be good news for financial stocks right now.

Regional banks announced first-quarter earnings in late February and early March. Today, we will look at two that have suffered steep declines in recent months. Are they worth picking up?

Canadian Western Bank (TSX:CWB)

Canadian Western Bank is an Edmonton-based bank that operates mainly in western Canada. Canadian Western Bank has dropped 8.1% in 2018 as of close on March 8. The company released its first-quarter results on the same day, but the stock failed to get a boost, as it closed down 0.17%.

Common shareholders' net income climbed 25% from Q1 2017 to $61.9 million. Total revenues also rose 10% to $193.2 million. The bank closed an $850 million portfolio acquisition in the quarter, which brings it closer to its goal to grow its Ontario loans to 30%. Canadian Western Bank also demonstrated strong credit quality, as the provision for credit losses as a percentage of average loans was down 27 basis points from the prior year.

The bank hiked its dividend 9% year over year to $0.24 per share, representing a 2.6% dividend yield. Canadian Western Bank stock is still up 16% year over year. It has boasted strong financials in successive quarters and could come at a bargain at its current price.

Laurentian Bank of Canada (TSX:LB)

Laurentian Bank is a Montreal-based regional bank that primarily services the province of Quebec. Shares of Laurentian Bank have plunged 12.2% in 2018 thus far. The bank has been wrestling with an issue with mortgage documentation that emerged in November 2017. Back in December, Laurentian said that it may need to buy back over $300 million in mortgages from a third party after an audit revealed possible issues and “client misrepresentations.” The third-party purchaser has since been identified as the Canada Mortgage and Housing Corporation.

The bank released its first-quarter results on February 28. Laurentian Bank said it had yet to complete its review of the over 1,900 mortgages in question, but in January it warned that the total amount of loans could exceed $390 million. The review is expected to be complete by the end of the second quarter.

In the first quarter, Laurentian Bank reported adjusted net income of $63.2 million, which represented a 20% increase from the prior year. Loans to business customers grew 22% from Q1 2017 and residential mortgage loans through independent advisors and brokers climbed 19% from the prior year. The bank most recently declared a quarterly dividend of $0.63 per share, representing a 5% dividend yield.

Laurentian Bank has posted strong growth in its loan business, but investors should wait until its review is complete before catching this stock.

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