# Mortgages Issues Resolved, This Bank Has 35% Upside

## Description

It has been a difficult year for **Laurentian Bank of Canada** (TSX:LB). The company has been caught up in a mortgage scandal that has required significant write-offs. Since it first announced inconsistencies in November of last year, the company has revised the impact upwards several times.



As a result, it has been Canada's worst-performing bank, losing almost 18% year to date. Although Laurentian Bank's stock price is off its lows, the bank is still trading 26% off its 52-week highs. On Tuesday, the company reported third-quarter earnings. Is the worst over?

### Mortgage issues resolved

Shareholders received the best of news. According to President and Chief ExecutiveFrançois Desjardins, "We completed our mortgage loan portfolio review and have resolved the situation with both CMHC and the third-party purchaser, with no impact on our customers. The review was completed within the guidance given last quarter."

On top of the mortgage review being completed, the key announcement was that it did so within previous guidance. This means, no surprise upward revision to mortgage buy-backs. It announced it had repurchased an as-expected $135 million in mortgage loans from the Canadian Mortgage Housing Corporation (CMHC). With the review complete, the company can now put the mortgage issues behind them and look forward.

### Mixed results

The company's third quarter results were less than impressive, which could still pressure shares over the short term. Adjusted earnings per share (EPS) of $1.34 dropped 18% year over year, while revenues increased 5% to $260.7 million. Unfortunately, the top and bottom line also missed analysts' estimates by 7.5% and 2.6%, respectively.

Net income was flat from the same period last year. In January, the company issued approximately 2.3 million shares, which helps explain why its EPS dropped while net income was flat. This also had a negative impact on the bank's return on equity (ROE), which fell to 9.2% from 11.8% in the third quarter of 2017.

It wasn't all bad, however. The company grew its loans to business customers by 14% year over year. This was largely a result of the Laurentian's acquisition of Northpoint Commercial Finance (NIC), which closed in August of last year. Likewise, net interest margin (NIM) grew by 14 basis points on the back of rising interest rates.

**Valuation**

Taking into account third-quarter results, Laurentian is trading at approximately 8 times earnings. Although this isn't as cheap as it once was, it is still significantly below industry and historical averages. With its mortgage issues in the rear view mirror, expect its valuation to adjust accordingly.

The company still has some work to do to fix its damaged reputation. However, the mortgage news should offset a less than stellar third quarter. Once Laurentian trades in line with its historical averages, investors would be looking at 35% upside from today's share price. In the meantime, investors get a 5.43% yield to wait.

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