



## This Bank Stock Is Down 20% Year to Date: Buy the Dip?

### Description

The past year has been difficult for **Laurentian Bank of Canada** ([TSX:LB](#)). Ever since it discovered mortgages that did not meet documentation and eligibility requirements [in December](#), shares have fallen 30%.

The bank third-quarter earnings released Tuesday disappointed and worsened things: shares have plunged over 6% following the news.

#### Laurentian fails to meet expectations

Laurentian Bank's third-quarter earnings missed expectations; the bank was hurt by higher costs related to restructuring, lower margins and lower residential mortgage sales, sending its shares to their lowest level since January 2016.

Laurentian Bank's quarterly profit was flat at \$54.9 million, as the company recorded acquisition-related costs and other expense increases that offset a revenue 5% higher than last year's revenue. Per share, net income went down from \$1.48 to \$1.23.

Return on common shareholders' equity was 9.2% for the third quarter of 2018 compared with 11.8% for the third quarter of 2017.

Adjusted earnings totalled \$59.4 million, or \$1.34 per share in the third quarter – down from \$59.9 million or \$1.63 per share in last year's third quarter. Those numbers are much lower than analysts' estimates of a net income of \$1.43 per share and adjusted earnings of \$1.45 per share.

The Montreal-based bank's revenue increased 5% to \$260.7 million driven by growth from its commercial loan portfolio thanks to its acquisition of Northpoint Commercial Finance, which was completed in August 2017.

#### Problematic mortgages issue is resolved

Laurentian Bank has completed a review of mortgages incorrectly sold to Canada Mortgage and

Housing Corp. (CMHC), and a third-party buyer and has resolved the issue to the satisfaction of both parties.

During the quarter, the bank repurchased \$135 million of mortgages that had been sold to the CMHC securitization programs and \$115 million of mortgages sold to an unnamed party. Both buybacks were completed within the bank's guidance issued last quarter.

Laurentian said that none of its customers has been affected by the bank's sale of mortgages that were designated portfolio insured by mistake, while they did not meet CMHC's standards for portfolio insurance.

Canadian financial institutions' mortgage lending practices have been under intense scrutiny since problems related to underwriting procedures were discovered at **Home Capital Group**.

### **Should you buy Laurentian Bank's stock on the dip?**

While the mortgage issue seems to be in the past for Laurentian Bank, I am bearish regarding the stock. While it has plunged a lot, the price is still too high relative to the company's growth forecast. Indeed, earnings are expected to grow by only 3.3% per year on average during the next five years, and the five-year PEG is 3, which is way over 1 and means the stock is too pricey relative to its growth potential.

There are many other Canadian banks with a much better growth outlook for a cheaper price. If you're looking for dividends, you may be tempted by Laurentian Bank's dividend yield of 5.8%. Even then, other banks have a dividend yield close to that and offer better growth perspectives for less risk, like **Canadian Imperial Bank of Commerce**.

I just don't see why you would want to buy a risky bank stock like Laurentian Bank when there are much [better bank stocks](#) out there.

### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

### **TICKERS GLOBAL**

1. TSX:LB (Laurentian Bank of Canada)

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