A Dirt Cheap Canadian Bank With a Massive 7% Yield!

Description

The Big Six Canadian banks are best-in-breed dividend stocks, no doubt about it, but none of them are in bear market territory yet, and that's off putting for some deep value investors who are looking to score a huge bargain to go with an enhanced dividend yield.

Fortunately, **Laurentian Bank of Canada** (TSX:LB), a Quebec-based regional bank whose shares now sport a whopping 7% dividend yield after falling 38% from its high, looks to be ripe for picking for contrarian investors on the hunt for the best deals to pick up before 2018 draws to a close.

It's been a while since I covered Laurentian. In the Spring of 2017, I encouraged investors to take a raincheck on Laurentian in favour of a Big Five bank, which I thought was a better bank for the buck. At the time, Laurentian stock had a modest 4.3% yield, with shares hovering around the $60 level. While Laurentian was a robust dividend-growth stock with steady and growing cash flows, I failed to understand why investors would opt for the regional bank over a cheaper, higher-quality Big Five bank at the time.

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Unsurprisingly, since my spring 2017 piece, Laurentian has plummeted over 33%, and is now considerably cheaper than its bigger brothers in the Big Five. The stock's valuation now makes a lot more sense, but given the recent issues with its mortgage underwriting in the third quarter, investors may want to exercise caution before jumping into the stock head first, even though shares are the cheapest they've been in recent memory.

For the fourth quarter, Laurentian clocked in some pretty weak numbers that fell well short of analyst expectations. Net income dropped 13% on a year-over-year basis, and the top line flopped alongside loan growth numbers.

So, you're getting a great price on Laurentian, but you're also getting the baggage, which you may end up holding as the market continues to retreat. As such, I'd only recommend dollar-cost-averaging into a position today if you're enticed by the bountiful 7% yield, which I think will continue to swell further.

The dividend, while artificially high due to the nosediving in shares, is sustainable, as it's entirely covered by operating cash flows. Moreover, the TTM payout ratio remains conservative at just under 50%, which leads me to believe that Laurentian will continue its dividend growth streak.

Foolish takeaway on Laurentian Bank

At the time of writing, Laurentian stock trades at a 7.3 forward P/E, a 0.7 P/B, and a 1.5 P/S, all of which are considerably lower than the company's five-year historical average multiples of 11.8, 1.1, and 1.7, respectively. That's a pretty steep discount to book value, and although the bank has its fair share of issues, I think you're getting a fairly wide margin of safety at this juncture, even with the "mini mortgage crisis" that was unique to Laurentian.

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