Alert: This Bank Stock Just Hit an Important Buy Signal

Description

Canadian bank stocks have long been considered stalwarts in a good, diversified portfolio.

It's easy to see why. Canada's banks enjoy some massive advantages that other industries can only dream of. Take mortgage default insurance, for example. This is mandated by the government for risky mortgages with less than 20% down.

It protects the lender in case of borrower default, yet it's the borrower who ends up footing the bill for the premium in the first place.

But that's not all. Canada's largest banks control the market, which means they all raise prices or loan rates one after the other. And government legislation protects the banks against competition. It's not easy to get a foothold in Canada, so most other worldwide banks don't even try.

Now that we've established why an investor should hold Canadian banks, it's time to tackle the next question. When exactly *is* a good buying opportunity? Personally, I follow a powerful — yet simple — rule. Whenever a bank stock flirts with a 52-week low, that's the time to buy.

You likely won't catch the bottom, but that's okay. By waiting for a downturn, you'll virtually guarantee a fair entry point over the long term.

Unfortunately for investors, Canada's banks have all rallied significantly off their 52-week lows. There's one exception, however. Thanks to some poor short-term earnings, **Laurentian Bank of Canada** (TSX:LB) shares are currently close to a 52-week low.

Here's why I think this represents a massive buying opportunity.

Prudent lending

In 2017-18, Laurentian was rocked by a scandal that said it sold some improper mortgages to a third party. An internal investigation revealed a couple of issues, including improper income verification on some loans and other mortgages that contained false information. The company was forced to repurchase close to $400 million worth of loans from that third party.

In response, Laurentian has become a more prudent lender. It reported a 9% drop in revenue in its most recent quarter, primarily because the company did fewer loans. Management has also made the decision to protect capital as the company transforms itself into something more closely resembling Canada’s six largest banks.

This transformation plan includes moving away from a branch-based system to something that places a heavier emphasis on technology. Many branches will be eliminated, with the remaining locations to be transformed into places for selling loans and wealth management products.

Naturally, this isn’t sitting well with Laurentian’s unionized workforce. Investors are taking this somewhat small risk and blowing it out of proportion.

A compelling valuation

Laurentian Bank is by far the cheapest Canadian major bank, which is music to this value investor’s ears.

Even after the crummy first quarter, Laurentian shares trade at a mere 9 times trailing earnings of $4.58 per share. Analysts have softened their 2019 expectations lately, but they still project forward earnings of $4.43 per share, which still puts shares at under 10 times forward earnings.

Laurentian is also quite cheap on a price-to-book value basis. Shares trade at approximately 75% of book value. Compare that to other Canadian banks, which trade anywhere from 1.5 times to as high as 2 times book value.

Finally, we have the dividend yield, which some analysts use as a quick test of value. After a recent dividend hike — the quarterly payout went from $0.64 to $0.65 per share — Laurentian Bank shares now yield an eye-popping 6.5%. That yield is approximately 50% higher than the average of its competitors.

The bottom line

Buying great stocks at compelling valuations is what investing is all about. Canadian banking is a nice business, and Laurentian Bank is a very cheap stock today. Put those two things together and it represents a massive buying opportunity. It really *is* that simple.

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