Bank Investors: Should You Bank on This 6.2% Yielder?

Description

Laurentian Bank (TSX:LB) is one of the highest yielding financial stocks in Canada with its 6.2% dividend yield. While most Canadian banks have been marvellous investments over time, Laurentian has arguably been the odd one out over the past few years as the company fell in hot water with its sour book of mortgages.

While the stock is indeed bountiful and cheap, with its ridiculously low 8.23 trailing P/E multiple, I'd argue that the extra reward isn't worth the extra baggage that investors will end up holding. The bank found itself in a "mini mortgage crisis" a while back and until now, management has failed to show that it's able to keep its expenses in check.

Moreover, labour troubles (another Laurentian exclusive!) thanks to the existence of a union served as a huge thorn in the side of the bank in its first-quarter results. As the bank moves ahead with its business model and strategy shake-up, there's also the potential for other issues to arise should management fail to execute amidst the dire macro environment.

The Big Short: Canadian version?

Steve Eisman from *The Big Short* previously announced that he was shorting Laurentian Bank alongside two other Canadian banks. In a prior piece, I stated that his Laurentian short was the only one that I agreed with thanks to the plethora of unique issues and the sub-par cost controls.

While Eisman doesn't think a Canadian version of The Big Short is imminent, he still thinks that Canadian banks, especially Laurentian, are "ill-prepared" for a credit cycle. With Laurentian's Q2 2019 results on tap soon, I fear that the stock could be geared for a big plunge such that shares could yield north of the 7% mark. So, I wouldn't advise touching Laurentian stock, although the big dividend appears more than secure at this juncture.

Foolish takeaway on Laurentian

Fellow Fool contributor David Jagielski thinks the name is a “great value option for investors who don’t want to pay a premium for a dividend stock,” but I’d say that the “cheap” stock is at high risk of becoming much, much cheaper given the combination of Laurentian’s unique issues and the severe industry-wide headwinds that could wreak havoc on all the banks.

There’s far too much baggage to bank with Laurentian right now. The risks are too high, and the uncertainties are far too great with the name. It’s my least favourite bank right now and a yield south of 7%, I believe, isn’t nearly enough to warrant the added risks you’ll bear as a shareholder.

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