



Market Crash: Is Laurentian Bank (TSX:LB) Stock About to Implode?

Description

Laurentian Bank of Canada ([TSX:LB](#)) is one of Canada's largest financial institutions. In 2017, it had a market cap of nearly \$3 billion. That figure shrank to \$2 billion by the end of 2019. The latest market crash pummeled the stock further. This week, it had a valuation of just \$1.2 billion.

Value investors are starting to take notice. After the recent fall, shares now deliver a dividend of 9.2%. But is that sustainable in light of the [coronavirus crisis](#) and oil price collapse?

On many metrics, Laurentian Bank stock is a buy. Shares are cheaper than they've ever been. However, macro headwinds could force this bank to implode, similar to what happened to U.S. competitors during the 2008 financial crisis.

So, which is it? A clear buy or an urgent sell?

Pay close attention

Steven Eisman, a major figure behind Michael Lewis's *The Big Short*, is one of the best-known market prognosticators in recent history. His most famous thesis involved the U.S. housing market. He was one of the only analysts that bet big on a collapse. That bet was ridiculed at first, but it ultimately created billions in profit.

Last year, Eisman came out with another bet. This time, it was against Canadian banks, including Laurentian Bank.

"Canada has not had a credit cycle in a few decades," Eisman noted in early 2019. "I don't think there's a Canadian bank CEO that knows what a credit cycle really looks like."

That's concerning news considering Canada is dealing with its biggest economic shock in decades. This market crash could prove far worse than the 2008 financial crisis.

The biggest issue, of course, is the coronavirus. Large industries like restaurants, entertainment, and

air travel are at a near standstill. Former multi-billion-dollar businesses will need direct government bailouts. Unemployment is spiking faster than any time in history. The unemployment rate could easily surpass 20%, with some analysts calling for 30% or more.

These factors will surely cause a downturn in the credit cycle. Eisman thinks that will cause direct harm to Laurentian Bank.

"I think they're unprepared for how much their capital ratios could go down if there's just a simple normalization of credit, not a calamity, just a simple normalization of credit," Eisman said.

How much lower could the stock go? "Twenty percent plus," Eisman predicted last year. He's already been proven right. Shares are down *more* than 20% since the market crash began. Unfortunately, the worst may still be ahead.

The market crash isn't over

The market has been myopically obsessed with the coronavirus crisis. And for good reason. But there's another crisis that's been overshadowed: the oil price collapse.

Oil started the year at roughly US\$60 per barrel. Today, a barrel of oil trades at just US\$20. This is horrific news for the Canadian economy, especially banks like Laurentian.

Just to provide some context, the last time oil traded at these levels was in 1999. The last time before that was 1973. This is truly a remarkable event.

More than 10% of Canada's GDP comes from the energy sector. Millions of jobs are either directly or indirectly reliant on oil production. The government collects billions in revenue from related businesses and income taxes. Even the strength of the Canadian dollar is largely influenced by oil prices.

If the oil sector is in trouble, Canada is in trouble. Any business that makes loans that rely on the strength of the economy will face severe challenges.

With oil at US\$20 per barrel, it's likely that the majority of Canada's energy sector is producing big losses. Most oil sands projects, for example, break even at prices above US\$40 per barrel. If depressed oil prices persist, it's probable that huge layoffs will ensue, with some mega-projects permanently exiting the market. The long-term impacts for Canada could rival the coronavirus.

Banks like Laurentian Bank are essentially leveraged bets on the economy. The coronavirus pandemic alone was enough to send LB stock spiraling. The pain from the oil rout, meanwhile, is just beginning. The market crash has created many buying opportunities, but this isn't one of them.

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