



This Tiny Bank Saw Massive Profits in Q3: Buy its Stock?

Description

Investors didn't expect **Laurentian Bank** ([TSX:LB](#)) to put up strong earnings results in the third quarter (ended July 31, 2020) fiscal 2020. Although the net income of \$36.2 million was 24.3% lower versus the same period in 2019, it was massive, considering the [highly volatile](#) environment.

In the same quarter, the \$1.28 billion Montreal-based bank saw its revenue grew to \$248.6 million, or 1.6% better than the third quarter of 2019. The latest financial figures bode well for the bank stock that's still underperforming year to date. However, the discounted price of \$29.63 and a 5.5% dividend makes it an [attractive buy](#).

Financial strength and stability

Laurentian Bank's interim president and CEO Stéphane Therrien said management had taken measures to preserve its financial strength and stability. He adds it's solid on the credit front and supported entirely by rigorous underwriting.

Like the bigger industry peers, Laurentian padded its provision for credit losses by \$22.3 million for the third quarter of 2020 versus the \$12.1 million allocations for the third quarter of 2019. Commercial loans have the highest allowances. The bank also anticipates a more severe recession and a slower economic recovery.

Transition period

Laurentian Bank is investing heavily in technology as it goes through a transition period. Its direct-to-customer channel, LBC Digital, was launched in the first quarter of 2020. Management hopes the bank can expand customer reach from coast to coast through this digital offering.

At the close of the third quarter, the platform generated demand deposits of \$0.6 billion. LBC Digital is the opportunity to welcome thousands of new clients. Over time, Laurentian should achieve its goal to broaden and deepen customer relationships. However, it might take several quarters to optimize its

tech investments.

New core banking system

In 2019, Laurentian Bank migrated all B2B Bank products and most of its loans to business customers to a new core banking system. Phase two of the program, which encompasses product offerings in the Quebec Retail Network and the remaining Business Services products, is ongoing. New products and features are coming soon.

Laurentian Bank has earmarked approximately \$250 million to spend on its business and technical priorities. The pandemic, however, is delaying the implementation. But as of July 31, 2020, about 80% of the budget was expensed out already.

Full digital experience

Laurentian Bank is no longer into the traditional branch networking approach. The bank is now functioning as a 100% advice model, and continually optimizing the footprint. Management is tirelessly working toward developing a fully digital experience.

The bank is looking to grow revenues with its new setup. Advisors replaced non-advice-based positions during the third quarter. There are roughly 70 new assistant advisor/customer services positions that support the advisor-client relationship and business development.

Strategic objectives

Laurentian Bank is approaching the sixth year of its seven-year strategic plan that began on November 2015. The objectives are straightforward: build a stronger foundation, invest in profitable growth, and improve financial performance. Investors can look forward to the realization of these objectives, but not a dividend cut.

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