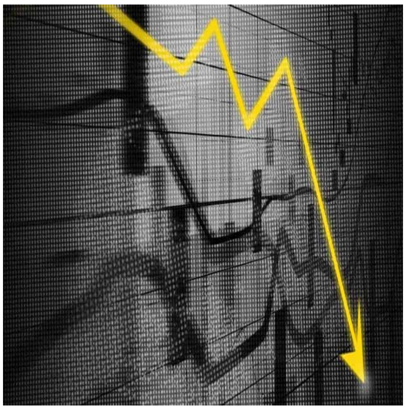

Why Laurentian Bank (TSX:LB) Stock Fell to 2-Year Lows Last Week

Description

While Canadian bank stocks have dropped 10%, **Laurentian Bank** (TSX:LB) has tumbled a notable 24% this year. Many Canadian banks reported not-so-great quarterly numbers last month, and Laurentian was one of them. But its recent weakness has pushed it close to its two-year lows.

Should you buy LB stock?

Banks generally witness an earnings surge amid the rising interest rate environment. However, Canadian banks saw their bottom lines drop in the fiscal third quarter (Q3) of 2022 quarter, thanks to runaway inflation and higher provisions.

Montreal-based Laurentian Bank reported a net income of $56 million for the quarter that ended on July 31, 2022. This was a decline of 10% compared to the same period last year.

Almost all Big Six Canadian banks reported decent loan growth coupled with margin expansion. However, they also have increased their allocation to provisions, indicating a gloomy economic outlook. During the quarter, Laurentian Bank set aside $16.6 million in provisions for the loans that could go bad. The amount has increased from $13 million set aside in the earlier quarter. Like Laurentian, higher provisions have also weighed on Big Six earnings in the last quarter.

Interestingly, runaway inflation and steeper rate hikes could continue to weigh on them for the next few quarters. The central banks have already conveyed their stance to deliver aggressive rate hikes to tame inflation. This will substantially increase borrowing costs, leading to higher credit losses and lower profits for banks. So, investors could expect some more weakness in TSX bank stocks.

LB stock: Attractively valued and premium yielding

Moreover, thanks to its recent correction, Laurentian Bank stock is now trading at a price-to-book value per share of 0.6. That's lower than its historical average and peers' average. Apart from its appealing valuation, Laurentian stock also offers a premium dividend yield of 5.5%. Peer bank stocks pay an average yield of 4%. So, it seems like a decent bet for value investors.

Well, hold on. It's prudent to consider associated risks. Top Canadian banks have a much larger scale and superior credit quality compared to Laurentian Bank. So, if an economic downturn comes, probably next year, peer banking bigwigs will likely be more resilient against Laurentian.

For example, Laurentian Bank had a common equity tier-one (CET 1) ratio of 9.1% at the end of fiscal Q3 2022. In comparison, top Canadian banks are around 13%. The ratio indicates the bank's core equity capital in contrast with its risk-weighted assets. It ultimately indicates the bank's financial strength.

Laurentian Bank stock has notably underperformed peers, not only in the short term, but in the long term as well. In the last five years, LB stock returned -25%, including dividends. In comparison, peer bank names delivered, on average, 50% in the same period.

The Foolish takeaway

So, Laurentian Bank could be a premium-yielding, attractively valued stock among TSX bank stocks right now. However, investors will likely be okay with passing this opportunity over top Canadian banks. Names like **Toronto-Dominion** and **Royal Bank** stand way taller in terms of credit quality and scale. And, importantly, when we see there a recession approaching, it's better to stay with the best and the proven.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:LB (Laurentian Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vinitkularni20

Category

1. Bank Stocks
2. Investing

Date
2025/06/29
Date Created
2022/09/19
Author
vinitkularni20