



With Oil at \$45, Should Investors Avoid Boardwalk REIT and Canadian Western Bank?

Description

It isn't just energy companies that are taking it on the chin with oil flirting with \$45 per barrel. Just about any stock with significant exposure to Alberta has been struggling over the past three months.

The economy of Alberta runs on oil. In Calgary, more than 200,000 of the city's 1.1 million inhabitants are directly employed by the energy sector, with those dollars having a significant effect on the the rest of the city's economy as well. If oil-related jobs dry up, so will spending in thousands of the city's restaurants and watering holes. Hotels will also be affected by the downturn, since business travel will undoubtedly slow down. I can't think of a sector of the city's economy that wouldn't hurt from a prolonged decline in energy, at least a little.

This is causing shares of companies with significant exposure to the Alberta economy to decline. While the risk to the province's economy is obvious, are investors getting a little too excited? Let's answer that question by taking a closer look at **Boardwalk REIT** ([TSX:BEI.UN](#)) and **Canadian Western Bank** ([TSX:CWB](#)).

Boardwalk

Up until a few months ago, Boardwalk was one of the stars of the Canadian REIT sector.

The company's strategy is simple. Instead of expanding endlessly in an environment where attractive cap rates are elusive, it decided to reinvest in its current buildings, upgrading them in hopes of attracting a higher class of tenant.

So far, it's working. Occupancy throughout the company's more than 35,000 apartments has increased, going from just over 95% in 2008 to nearly 99% today. Annual turnover has also shown a marked improvement, falling from 44% to under 36% during the same time period. The company has even placed its own internal rent control system in place, forgoing some short-term increases for the long-term good of its tenant base.

Plus, the company's balance sheet is one of the best in the REIT sector. The company is sitting on

more than \$160 million in cash, and its debt-to-assets ratio is just 0.36, which makes it pretty conservatively financed compared to its peers. Having a strong balance sheet is important in an uncertain environment.

These are all good things and Boardwalk's management should be credited with running a solid business. But ultimately, they're not going to matter much if the company is forced to cut rents or if a bunch of tenants move to greener pastures. Both those situations could happen if oil continues to be weak.

Canadian Western Bank

On the surface, Canadian Western Bank seems like a screaming buy. It trades at just 10x earnings and at 1.4x book value. Based on those two important metrics, the company is trading at a pretty significant discount to its competitors.

Of course, we all know what the problem is. More than 40% of the company's loans are made to borrowers in Alberta.

The bank is also overly exposed to some pretty risky stuff. The company's niche is more in the commercial side of things, with both general commercial loans and commercial mortgages — each totaling 20% of total loans outstanding — being a far more important part of the business than residential mortgages, which are just 16% of the company's total lending portfolio. In a market where shrinking energy prices and layoffs will hurt businesses, that's a bad place to be.

Plus, the company's loan loss provisions are just 0.2% of its total portfolio. For the amount of commercial loans it has on its balance sheet, I'd say the company's potential losses are much higher than 0.2%.

There's little reason for investors to get excited about buying either of these two companies. If oil stays down for an extended period of time, both will likely see further declines as a weakening economy in Alberta takes its toll. There's better places to be, at least in the short-term.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:CWB (Canadian Western Bank)

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