



Does Canadian Western Bank and its 3% Yield Belong in Your Portfolio?

Description

Canadian Western Bank ([TSX: CWB](#)), Canada's 10th largest bank in terms of total assets, announced first-quarter earnings results after the market closed on March 4, and its stock has responded by falling over 4.5% in the weeks since. The stock now sits more than 36% below its 52-week high, so let's take a closer look at the quarterly results to determine if we should consider scaling in to long-term positions today.

Breaking down first-quarter results

Here's a summary of CWB's first-quarter earnings results compared to its results in the same period a year ago.

Metric	Q1 2015	Q1 2014
Earnings Per Share	\$0.65	\$0.61
Revenue	\$152.38 million	\$144.07 million

Source: Canadian Western Bank

CWB's diluted earnings per share from continuing operations increased 6.6% and its revenue from continuing operations increased 5.8% compared to the first quarter of fiscal 2014. The company's strong earnings-per-share growth can be attributed to its adjusted net income increasing 7% to \$53.58 million and its solid revenue growth can be attributed to net interest income increasing 9.2% to \$132.92 million.

Here's a breakdown of 12 other important statistics and ratios from the report compared to the year ago period:

1. Total assets increased 11.2% to \$21.27 billion
2. Total loans increased 12.4% to \$18.14 billion
3. Total deposits increased 10.3% to \$17.92 billion
4. Total debt increased 38.4% to \$1.13 billion

5. Total shareholders' equity increased 5.5% to \$1.73 billion
6. Total assets under administration increased 9% to \$9.22 billion
7. Total assets under management increased 11% to \$1.87 billion
8. Net interest margin contracted five basis points to 2.59%
9. Efficiency ratio expanded 240 basis points to 47.1%
10. Return on common shareholders' equity contracted 70 basis points to 13.1%
11. Return on assets contracted four basis points to 1.01%
12. Book value per share increased 11.4% to \$19.99

CWB also reiterated its full year outlook on fiscal 2015, which calls for the following performance compared to fiscal 2014:

- Earnings-per-share growth in the range of 5-8%
- Loan growth in the range of 10-12%
- Efficiency ratio of 47% or less
- Return on equity in the range of 14-15%
- Return on assets in the range of 1.07-1.12%

Should you be a buyer of CWB today?

I do not think the post-earnings drop in CWB's stock is warranted and actually represents an attractive long-term buying opportunity because it trades at very low valuations and pays a generous dividend.

First, CWB's stock trades at just 10.3 times fiscal 2015's estimated earnings per share of \$2.68 and only 9.7 times fiscal 2016's estimated earnings per share of \$2.86, both of which are inexpensive compared to its five-year average price-to-earnings multiple of 13.6. Also, it trades at a mere 1.38 times its book value per share of \$19.99, which is very inexpensive compared to its market-to-book value of 2.03 at the conclusion of the first quarter of fiscal 2014.

Second, CWB pays a quarterly dividend of \$0.21 per share, or \$0.84 per share annually, which gives its stock a 3% yield at current levels, and I think this makes it qualify as both a value and dividend investment play today.

With all of the information provided above in mind, I think Canadian Western Bank represents one of the best long-term investment opportunities in the financial sector today. Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions.

CATEGORY

1. Bank Stocks
2. Investing

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1. Editor's Choice

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1. TSX:CWB (Canadian Western Bank)

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Date

2025/08/25

Date Created

2015/03/23

Author

jsolitro

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