



After a 35% Pullback, Canadian Western Bank Is Now a Compelling Investment

Description

When we hear about Canadian banks, the big banks come to mind: **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Bank of Nova Scotia**, **Canadian Imperial Bank of Commerce**, and **Bank of Montreal**. So, it might come as a surprise that **Canadian Western Bank** ([TSX:CWB](#)) has raised dividends for 23 years in a row, placing it in the third spot with the longest streak of dividend increases in Canada — beating its larger rival banks in that aspect.

Since reaching its all-time high of \$43 in August 2014, it has retreated close to 35% to its present price of around \$28. What has caused this price drop? Is it a good time to buy?

About Canadian Western Bank

As the name implies, Canadian Western Bank is based in the western part of Canada, primarily across the four western provinces. The bank was established in 1984 in Edmonton, Alberta. Today, it has grown to 41 banking branches, a centralized equipment leasing office, eight trust locations, two insurance call centres, an internet banking division, and two wealth management offices.

What caused the price drop?

At the end of 2014, the company had an overall positive outlook for 2015; however, a sustained period of low energy and other commodity prices will negatively impact the bank's earnings growth potential.

For example, Canadian Western Bank forecasted its earnings per share (EPS) growth in 2014 to be between 12% and 16%. The actual result was 15% growth. The bank forecasts the EPS growth in 2015 to be between 5-8%.

Most of the bank's earnings come from its loans. In 2014, the Canadian Western Bank had strong 12% loan growth, with its business and personal loans making up 84% of its assets.

To put into a better perspective, Canadian Western Bank achieved double-digit loan growth in 24 of the past 25 years. The only exception was during the financial crisis in 2009 when loan growth was 7%.

Dividend history and growth

The dividend yield is one indicator for if a company is a good buy at today's price. The bank currently

yields 3%, which is the highest in a decade, excluding the financial crisis period in which it reached a yield of 5.5%. In the past five years, its yield range has been typically between 1.5% and 2.5%.

Its historical dividend growth rates show consistency in the low double digits. Its one-year dividend growth rate is 11.1%, the three-year rate is 12.6%, the five-year rate is 12.7%, and the 10-year rate is 17.6%. Its payout ratio is at 29%, which is at the high end of its historical range.

If the past is an indicator of the future, Canadian Western Bank could raise its dividend by a token penny like it did in 2008. Notice that the bank didn't raise the dividend after that until the last quarter of 2010. However, on an annual payout basis, the bank has still increased dividends every year in the past 23 years. This shows that the company is committed to growing its dividends even in face of hardships.

What can investors expect in the future?

In the near term as the oil price and other commodity prices remain low compared to historical averages, Canadian Western Bank is likely to experience further downward pressure in its price. This is supported by analysts who have reduced the bank's fair value estimate to around \$29.

That said, the last time that Canadian Western Bank experienced a steep drop in price in the past 20 years was during the financial crisis. As a result, for the patient investor who picks up some shares in the bank, Canadian Western Bank can prove to be a lucrative investment in a few years.

At today's levels, the bank has a price-to-earnings (P/E) ratio of 10.3. When the headwinds of low commodity prices weaken, the bank could experience P/E expansion to its historical level of 13.6 to 14. This could result in a price appreciation to \$37-\$41 or a return of 32.1%-46.4%, or a total return of 35.1%-49.4% with the dividend in two years.

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1. TSX:CWB (Canadian Western Bank)

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