



Why Canadian Western Bank Is the Best-Valued Bank Today

Description

People often complain about the high bank fees. So, why don't we get the banks to pay for our bank fees? By being a part-owner in the banks, shareholders share the profits of the banks in the form of dividends as well as potential gains.

Now, there's no binding contract saying that the banks must pay us dividends. That's why it's essential to see a long history of dividend payments, indicating the banks are in full support of the dividends.

When it comes to investing in banks, surely, the first names that come to mind are: **Royal Bank of Canada**, **Toronto-Dominion Bank**, and **Bank of Nova Scotia**. The big banks are great long-term investments. For instance, Bank of Nova Scotia has paid a dividend since 1833!

However, when it comes to the best-valued bank today, I will have to pass on the big banks for this smaller regional bank, **Canadian Western Bank** ([TSX:CWB](#)).

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Here's a table comparing the banks' past decade's price-to-earnings ratios [P/E] and today's P/E ratio.

Bank Today's P/E 10-yr P/E Discount

CWB	11.2	15.1	25.8%
LB	8.9	10.6	16%
RY	12.4	12.6	—
BNS	11.8	12.4	4.8%
TD	12.8	12.3	—

I've thrown in **Laurentian Bank of Canada** into the mix as a close comparable peer to Canadian Western Bank.

Shareholder returns in dividends

As mentioned earlier, I want my bank dividends to pay for my bank fees. So, to keep pace with the bank fee increases, the bank should be increasing its dividends, too. I'm going to compare Canadian Western Bank and Laurentian Bank because both raised dividends during the financial crisis in 2008 and 2009, while the big banks froze their dividends.

Canadian Western Bank has increased dividends for 23 years in a row. Compare that record with Laurentian Bank, which has only increased it for seven years. As a result, I will compare their one-year, three-year, and five-year dividend growth rates.

Banks 1-Yr DGR 3-Yr DGR 5-Yr DGR

CWB	11.1%	12.6%	12.7%
LB	4%	8.3%	8.7%

Notice that Canadian Western Bank only pays a 2.7% yield versus Laurentian Bank's 4.5% yield. So, just looking at the income aspect, investors need to decide if they want higher yield and slower growth or lower yield and higher growth.

That said, Canadian Western Bank forecasts its 2015 earnings-per-share growth to be between 5-8% versus its 2014 growth of 15%. So, if its dividend increase does follow its earnings growth, as a conservative business should, then at most, its dividend will increase by 8% until earnings growth picks up again. Still, 5-8% growth is nothing to sneeze at.

Total return comparison

The total return below includes dividend reinvestments and price appreciation. Take the comparison with a grain of salt because, as we all know, returns are based on the price paid (value bought) when investors bought their shares. That's why it's essential to buy when it's cheap and not overpriced.

Total return comparison:

Bank YTD 1-Year 3-Yr 5-Yr 10-Yr 15-Yr

CWB	-5.7%	-15.4%	4.5%	7.6%	10.2%	14.5%
LB	-2.3%	7.8%	6.9%	5.5%	9.4%	9.2%
RY	2.7%	15.7%	16%	9%	10.6%	12.8%
BNS	3.6%	6.6%	11.1%	9.2%	8.2%	12%
TD	2.9%	12%	13.9%	11.4%	10.7%	10%

As can be seen in the second and third columns, Canadian Western Bank's recent returns have been horrible compared with the others. However, this finding matches with the 25.8% discount discovered earlier.

There can only be a discount if a company did exceptionally well, and the price hadn't caught up, or if a company experienced weakness or a slowdown in its business and its price had gone down. Canadian Western Bank is the latter case.

At a P/E of 15, Canadian Western Bank would be trading around \$40. Today's price of about \$31 is a

compelling opportunity for exceptional long-term gains.

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2. Dividend Stocks
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TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)

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