Beyond the Big Five: Regional Banks Make Their Mark

Description

There's little doubt that Canada's Big Five banks are a good investment, and a great base for any portfolio—but they are certainly no bargain. Prices for the Big Five range from $56-95 per share. For something a little cheaper, and with growth potential, consider the smaller regional banks, such as **Canadian Western Bank** (TSX:CWB) and **Laurentian Bank of Canada** (TSX:LB).

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Canadian Western Bank

Stronger oil prices since mid-March have buoyed Canadian Western's valuation, which is now being tested by a new, inexperienced NDP government in Alberta, according to Barclays' analyst John Aiken. Although the bank's shares have gained 13% over the past few months, compared with a 3% rise for the TSX, low oil prices are still weighing on Barclays' outlook, exacerbated by the uncertain impact of what the new government will mean for business in Alberta. "Consequently, we anticipate ongoing share price volatility, and testing of CWB's premium volatility will likely continue to linger," said Aiken.

Barclays has a price target of $29 for Canadian Western Bank, and a neutral rating. Aiken also expects the bank to announce a $0.01 increase in its quarterly dividend, which is currently at $0.21, in the next quarter.

Laurentian Bank of Canada

Canadian banks have climbed an average 3% since the start of April, Barclays noted, with strengthening crude oil prices easing negative market sentiment. However, Laurentian, with no exposure to the energy sector, has underperformed its peer group by approximately 1%. "With modest Q2 expectations and few catalysts anticipated in the quarter, we anticipate Laurentian's valuation could remain range bound," Aiken said. He adds that Laurentian's continued valuation discount reflects a wait-and-see approach from the market on the bank's ability to generate stronger asset and earnings growth with its business-to-business and commercial banking initiatives.

Barclays has a price target of $48 and a neutral rating for Laurentian. Aiken projects a $0.01 increasein Laurentian's dividend in the second quarter, which, although modest, would push the bank'sdividend yield to 4.6%, ranking it among the highest of its peers.

In the long term, Aiken says both Canadian Western and Laurentian offer solid value, and his current weak forecast has more to do with Barclays' "tempered" earnings growth outlook for Canadian banks as a whole. On that point I agree with Aiken wholeheartedly and would note that, like many analysts, his perspective is mainly short term, and does not take into account the significant growth potential of the two banks.

Canadian Western Bank projects its 2015 earnings-per-share growth to be in the range of 5-8%, down from last year's 14% level, but still impressive in the current environment. And on top of Laurentian's higher dividend yield, shares of the bank trade at a discount to its larger peers. Bottom line, both Canadian Western Bank and Laurentian Bank of Canada are worthy stocks for bargain hunters in the financial sector.

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