



How Is Canadian Western Bank Doing?

Description

On June 4 **Canadian Western Bank** ([TSX:CWB](#)) reported its second-quarter financial results. Essentially, Canadian Western experienced solid financial performance with ongoing loan growth and sound credit quality.

Overview of year-to-date results

Here's an overview of the business performance from combined operations from a year-to-date perspective:

- Earnings-per-share growth of 4%
- Loan growth of 11%
- Return on equity of 13.6%

Sale of non-core businesses

On May 1 the bank completed the divestitures of Canadian Direct Insurance and the stock transfer business of Valiant Trust. The former was acquired by Intact Financial Corporation, and the latter was acquired by Computershare Canada.

The sales of these non-core businesses were sold at premium valuations, adding about \$1.38 per common share that is to be realized in the third quarter.

The bank is looking for opportunities to redeploy the proceeds, possibly towards franchise building investments in equipment financing and wealth management.

Loan growth and low oil prices

Strong loan growth has been an essential component of Canadian Western Bank's long-term success. Loans grew 2% in the second quarter, 6% year-to-date, and 11% in the past 12 months.

Only 6% of total loans outstanding are directly exposed to oil and gas activity. Because of the low oil

price, near-term growth related to the energy industry is expected to be limited.

Stress test

The bank regularly stresses its balance sheet and income statement to assess potential impacts of various scenarios. Its recent tests focused on constrained operations in Alberta and Saskatchewan, but normal operations in other provinces.

Specifically, the tests included the projected impact of a 30% correction in Alberta and Saskatchewan real estate values, as well as a simulation of the bank's peak credit losses realized simultaneously across all segments of the loan portfolio in both provinces.

The bank also added in other factors, such as changes in interest rates, higher levels of liquidity, and even slower or negative loan growth. While these influences do constrain earnings, the bank's financial stability remains sound even in the most severely negative scenarios.

To add some colour to the significance of these stress tests, 49% of Canadian Western Bank's loans are in Alberta and Saskatchewan, 33% in British Columbia, 3% in Manitoba, and 15% in Ontario and other provinces.

Dividend

Canadian Western Bank has raised its quarterly dividend for 23 years in a row. The bank continues to instill confidence in shareholders by continuing to raise its dividend. Specifically, this month, it hiked its dividend by 4.8% compared with the last quarterly dividend, or a 10% raise compared with a year ago.

At about \$28 per share, the bank yields 3.1% with a payout ratio of 29%.

In conclusion

Canadian Western Bank seems to be doing well given that it's operating in a low oil price environment. In my opinion, its 34% decline in share price offers an opportunity to buy this well-run regional bank at a discounted valuation with a multiple of 10.3.

Investors willing to wait through the oil price decline and slowdown in Alberta should consider these deeply discounted shares that could trade at a multiple of 15 under normal conditions, implying \$40 per share or capital growth of 30%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. TSX:CWB (Canadian Western Bank)

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