



How Is the Economic Downturn Affecting Canadian Western Bank?

Description

As economists argue over whether Canada was in recession earlier this year, there's little doubt that weak oil prices have created recession-like conditions in Alberta. That's a challenge for Alberta-based companies like **Canadian Western Bank** ([TSX:CWB](#)), whose previously strong growth profile has been diminished in the current economic climate.

More than 40% of the bank's loans originate in Alberta, said Canaccord Genuity analyst Gabriel Dechaine in a note to clients. Canadian Western's overweight exposure to western Canada could be problematic given the potential for credit deterioration in the region.

In its latest business outlook survey, Bank of Canada noted that Canadian firms in energy-producing regions continue to face tough markets. "In particular, businesses located in the Prairies anticipate that sales will decelerate over the next 12 months as the oil price shock spreads across sectors," Bank of Canada said.

Dechaine has a hold rating on Canadian Western Bank's stock, noting that although the company has historically traded at a premium compared with its banking peers, its growth has suffered as oil prices have failed to recover to a substantial degree.

"We believe that at the very least it is unlikely that Canadian Western Bank will trade at a premium in the near term as its growth is hampered by weaker GDP growth in western Canada, specifically Alberta," said Dechaine, who is forecasting 2% earnings-per-share growth for the bank in 2015, followed by 7% in 2016. He set a price target for the stock of \$29.

In the first quarter the bank reported weaker-than-expected earnings and impaired loans rose to \$80 million, the highest level since 2010 according to RBC analyst Darko Mihelic.

Still, bank CEO Chris Fowler insists the bank's growth targets remain realistic, pointing out that direct exposure to the energy sector is relatively small at about 6% of total loans outstanding.

"We measure ourselves on performance-based metrics, like revenue growth, loan growth, provisions for credit loss, return on equity, earnings per share and cost efficiency—metrics which reflect the true

performance of CWB Group and have not had a statistically significant correlation to the price of oil,” Fowler said.

Bank stocks have suffered through the challenging economic conditions in 2015. But it’s been worse for Canadian Western Bank, whose stock has declined 15% this year. Fowler claims the bank’s stock price is “sensitive to short-term fluctuations based on the address of our head office.” Still, it’s probably a stock worth avoiding until the price of oil recovers significantly.

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1. TSX:CWB (Canadian Western Bank)

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Date

2025/07/01

Date Created

2015/07/08

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