3 Reasons Canadian Western Bank Is a Great Long-Term Investment

Description

Canadian Western Bank (TSX:CWB) slid from $29 to below $24 this month. That's more than 17% decline in three weeks, all thanks to the retreating oil price.

As long as the oil price stays down, the sentiment will remain negative for Canadian Western Bank. However, I believe now is a good time to accumulate shares of this regional bank because the bank is an excellent long-term investment. Here's why.

1. Great track record of earnings growth

Since 1996, Canadian Western Bank's earnings growth has been in a long-term uptrend, though there have been some hiccups in between. The most recent was during the global financial crisis. In 2008, it only managed to increase earnings per share (EPS) by 5%, and in 2009 it even declined 7%. However, in 2010, it came back with a vengeance with amazing EPS growth of 39%. Then, there was single-digit growth between 2011-2013.

What I'm trying to get at is that Canadian Western Bank has been through up and down cycles, but it pulled through every time. It has had slowdowns and even earnings declines in some years, but it always recovers and becomes stronger.

EPS grew by 4% in the first two quarters of this year. Yet the share price has fallen from $42 to below $24, a decline of 43%. The price decline doesn't match the strong company fundamentals, and the shares are now super cheap.

2. Record low valuation

At below a price-to-earnings ratio (P/E) of 9, Canadian Western's shares are deeply discounted from historical norms where it traded between a P/E of 13 and 15, indicating a fair price of $35 to $40, or a discount of 31% to 40% compared to the present price of $24. Using the price-to-book ratio, Canadian Western is priced as cheaply as in 2008.

There's reason for the discount though because 42% of the bank's loans come from Alberta and 7%

from Saskatchewan. Even though only 2% of its loans are directly-related to oil and gas production, low oil prices affect the entire Canadian economy, and particularly so to the economy in Alberta and Saskatchewan. So, the combined 49% of loans are viewed as higher risk.

3. Stellar dividend growth history

The safest dividend is the one that was just raised. Well, Canadian Western Bank just raised its quarterly dividend in June to $0.22 per share. It was its 23rd year of increasing dividends, placing it in third place for the Canadian company with one of the longest consecutive-year dividend increases.

It wasn't a puny hike either. The raise was an annualized raise of 10%. The payout ratio is 29% which fits in the bank's target range of 25-30%. With the declined share price, the shares now gives a historically high yield of 3.7% for the company.

In conclusion

In the near-term, Canadian Western Bank's shares will remain volatile in correlation to the oil price. However, with the kind of track record that the bank has, I expect it to give exceptional triple-digit returns in a few years, while in the mean time, you get a high yield of 3.7% from the bank. In conclusion, I believe it's a good time to ease in into Canadian Western Bank shares.

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1. TSX:CWB (Canadian Western Bank)

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