



Should You Buy Canadian Western Bank Around Earnings Report Time?

Description

Canadian Western Bank ([TSX:CWB](#)) will report its third-quarter earnings on August 26. Now, Canadian Western is quite different from the Big Five banks.

In fact, Canadian Western only has close to \$2 billion in market capitalization, while the smallest of the Big Five banks, **Canadian Imperial Bank of Commerce** has over \$36 billion. So, Canadian Western Bank is, at most, considered a mid-cap stock.

Background

Canadian Western has been plagued by low oil prices. After all, it has 42% loans in Alberta and 7% in Saskatchewan. Even though only 2% of its loans are directly related to oil and gas production, it's assumed that 49% of its loans are indirectly related to the oil and gas industry because they are located in resource-rich provinces.

As a result, Canadian Western has declined by a whopping 43% within a year from its high of \$43 per share. To make matters worse, there's no end in sight regarding how low it will go. No matter what, its business is tied to the health of the oil and gas industry, at least sentiment-wise, and the oil price is below U\$50 once more, and is priced around U\$45 as I write this.

How has the bank fared so far?

Canadian Western is holding its ground. So far, in the first half of the year it has achieved 4% growth in earnings per share (EPS), 11% in loan growth, and 13.6% in return of equity.

In the second quarter it forecasted these numbers for the year: EPS growth of 5-8%, loan growth of 10-12%, and return of equity of 14-15%. This implies that it expects slower growth in the second half of the year.

Valuation

I believe its share price already reflects the slower anticipated growth because it is priced at a multiple

of only nine under \$25 per share. Historically, when the bank experienced higher growth, it reached a normal multiple of 15. So, that means its shares has potential to reach over \$40 again, implying capital gains of over 60%. However, its shares are likely to stay low and even decline if the oil price stays low or shows further weakness.

Dividend

At under \$25 per share, Canadian Western yields 3.6%. Its payout ratio is over 31% based on a quarterly dividend of \$0.22 per share and an EPS of \$2.80, 4% higher than the 2014 fiscal year EPS. The dividend is sustainable. However, the bank targets a payout ratio of 25-30%, so I'd like to see that payout ratio decline over time.

Canadian Western Bank has paid a growing dividend for 23 years. With a conservative payout ratio target, there's no reason it cannot at least maintain its current dividend.

In conclusion

I'm not encouraging the timing of the market, but around earnings report time the market can get especially emotional about a company. Canadian Western could go up or down 5% in one day.

Because Canadian Western shares are priced at a big discount today compared with historical multiples, Foolish investors could act cautiously by buying half a position now and finishing off the position after the earnings report.

That is, if you plan to buy \$5,000 in the bank, you could buy \$2,500 today, and buy more after the earnings report.

Pro earnings report, if the price goes up it means the company is doing better than expected. If not, then you might be able to spend another \$2,500 and buy more shares at a lower price.

I believe Canadian Western Bank offers a great opportunity for long-term capital appreciation. However, shareholders are required to have the patience to hold on for three to five years as the oil price situation plays out. At the very least, you get paid 3.6% to wait.

The super-cautious Foolish investor could wait until the earnings release to see the most recent forecasts by the bank before making a decision.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. TSX:CWB (Canadian Western Bank)

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