Is Canadian Western Bank a Top Value Play Today?

Description

Canadian Western Bank (TSX:CWB), one of Canada's largest banking institutions, announced third-quarter earnings results before the market opened on September 3, and its stock has responded by falling over 6.5% in the trading sessions since. The company's stock has now fallen nearly 32% year-to-date, so let's take a closer look to determine if now is finally the time to buy, or if it could head even lower from here.

A quarter of mixed growth

Here's a summary of CWB's third-quarter earnings results compared with its results in the same period a year ago. All results are from continuing operations.

Metric	Q3 2015	Q3 2014
Adjusted Cash Earnings Per Share	$0.65	$0.67
Total Revenue	$153.77 million	$149.73 million

Source: Canadian Western Bank

CWB's adjusted cash earnings per share decreased 3% and its revenue increased 2.7% compared with the third quarter of fiscal 2014. Its slight decline in earnings per share can be attributed to its net income decreasing 2.9% to $51.17 million and its total number of common shares outstanding increasing 0.3% to 80.48 million. Its slight revenue growth can be attributed to its net interest income increasing 8.5% to $139.22 million, but this growth was largely offset by its non-interest income decreasing 32.7% to $13.27 million.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period.

1. Total assets increased 8.4% to $22.25 billion
2. Total loans increased 11.1% to $19.04 billion

3. Total deposits increased 8% to $18.85 billion
4. Total assets under management increased 6.9% to $1.91 billion
5. Efficiency ratio improved 250 basis points to 48.8%
6. Book value per share increased 15.7% to $22.01

CWB also announced that it will be maintaining its quarterly dividend of $0.22 per share, and the next payment will come on September 24 to shareholders of record at the close of business on September 14.

Should you buy or avoid the stock today?

It was a weak quarter overall for CWB, so I think the post-earnings weakness in its shares was warranted. However, I also think the weakness has led to a great buying opportunity for long-term investors, because the stock now trades at very inexpensive valuations and because it has shown a strong dedication to maximizing shareholder value through the payment of dividends, which will amplify the potential returns going forward.

First, CWB's stock trades at just 8.4 times fiscal 2015's estimated earnings per share of $2.66 and only eight times fiscal 2016's estimated earnings per share of $2.78, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.7 and the industry average multiple of 12.4. It also trades at a mere 1.01 times its book value per share of $22.01, which is incredibly inexpensive compared with its market-to-book value of 2.19 at the conclusion of the year-ago period.

Second, CWB pays an annual dividend of $0.88 per share, which gives its stock a 3.95% yield at today's levels. The company has also increased its dividend for 23 consecutive years, the third-longest active streak for a public corporation in Canada, and its consistent free cash flow generation and financial stability could allow this streak to continue for the foreseeable future.

With all of the information provided above in mind, Canadian Western Bank is a value, high-dividend and dividend-growth investment opportunity today, making it a strong buy in my book. All Foolish investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Bank Stocks
2. Investing

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1. TSX:CWB (Canadian Western Bank)

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