3 Reasons Why Canadian Western Bank Could Outperform the Market

Description

Canadian Western Bank (TSX:CWB), one of Canada's largest banking institutions, has taken a beating in 2015, falling over 25%, but it has the potential to rebound and widely outperform the overall market from this point forward. Let's take a look at three of the primary reasons why I think this could happen and why you should consider making it a core holding today.

1. Its strong earnings results could support a continued rally

On September 3, CWB released strong earnings results for its three and nine-month periods ending on July 31, 2015, and its stock has responded by rising over 2% in the trading sessions since. Here's a summary of eight of the most notable statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted common shareholders' net income increased 4.5% to $155.1 million
2. Adjusted cash earnings per share increased 4.3% to $1.96
3. Revenue increased 4.8% to $457.32 million
4. Total assets increased 8.4% to $22.25 billion
5. Total loans increased 11.1% to $19.04 billion
6. Total deposits increased 8% to $18.85 billion
7. Total assets under management increased 6.9% to $1.91 billion
8. Book value per share increased 15.7% to $22.01

2. Its stock trades at inexpensive forward valuations

At current levels, CWB's stock trades at just 9.4 times fiscal 2015's estimated earnings per share of $2.61 and only nine times fiscal 2016's estimated earnings per share of $2.72, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 13.7 and the industry average multiple of 12.

I think CWB's stock could consistently trade at a fair multiple of at least 12, which would place its shares upwards of $31.25 by the conclusion of fiscal 2015 and upwards of $32.50 by the conclusion of fiscal 2016, representing upside of more than 27% and 32%, respectively, from today's levels.

3. It has a 3.6% dividend yield and an active streak of annual increases

CWB pays a quarterly dividend of $0.22 per share, or $0.88 per share annually, which gives its stock a 3.6% yield at current levels. It has also increased its annual dividend payment for 23 consecutive years, the third-longest active streak by a public corporation in Canada, and its strong operational performance could allow this streak to continue for the foreseeable future.

Should you buy shares of CWB today?

I think Canadian Western Bank could widely outperform the overall market from this point forward. Its strong earnings results year-to-date in fiscal 2015 could support a continued rally, its stock trades at very inexpensive forward valuations, and it has a 3.6% dividend yield with one of the longest active streaks of annual increases, which will boost the potential returns for investors. All Foolish investors should strongly consider beginning to scale in to long-term positions today.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)

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