



## Canadian Western Bank: Priced Cheaply for Substantial Returns

### Description

The market occasionally gives us opportunities. Now, there is a rare opportunity to buy a valuable dividend stock at a great discount. The oil price plummet has resulted in **Canadian Western Bank** ([TSX:CWB](#)) selling at a double-digit discount.

### Price action is misaligned with business performance

Although 49% of Canadian Western Bank's loans are in Alberta and Saskatchewan, the bank's year-to-date business performance has remained strong. It experienced strong loan growth of 9% year-to-date and its credit quality remains stable. Its third-quarter results also included divestiture gains of \$107.6 million. Yet its share price has gone down from \$33 to \$24 year-to-date, a price decline of 27%.

### Loans composition by lending sector

Canadian Western Bank's loans are well diversified across multiple lending sectors. The top five sectors include general commercial loans (20%), commercial mortgages (20%), real estate project loans (17%), equipment financing and leasing (18%), and personal loans and mortgages (17%). Oil and gas production loans only make up 2% of its total loans.

### Acting prudently

Over the course of nine years, the bank has also experienced low write-offs relative to the level of gross impaired loans. This reflects the bank's secured lending practices and disciplined underwriting.

From 2011 to the present, Canadian Western Bank has experienced lower credit losses compared with the Big Six Canadian banks. Canadian Western Bank also has lower leverage compared with the Big Six. As a smaller bank based in western Canada, Canadian Western Bank is acting even more prudently. In fact, Canadian Western Bank *must* act very cautiously in the way it conducts its loans. After all, 89% of its revenue comes from interest income.

### Valuation

The graph below indicates Canadian Western Bank is trading very closely to its book value of \$22. As its book value and dividends continue to increase, its share price had taken a sharp turn downwards.

[graph showing Canadian Western Bank shareholder return and intrinsic value](#)

Image not found or type unknown

*Source: Canadian Western Bank Q3 2015 corporation presentation. Slide 33*

It's priced at a price-to-earnings ratio of nine, while historically, it has reached multiples of over 15, indicating the shares are discounted by at least 38%.

### **Dividend**

At under \$24 per share, Canadian Western Bank yields 3.7%. Its payout ratio of about 30% implies a solid dividend. The bank has one of the longest streaks of growing dividends. It has grown its dividends for 23 years in a row, even during the Financial Crisis, when bigger Canadian banks froze their dividends.

### **In conclusion**

Last time Canadian Western Bank shares took a dive was during the Financial Crisis six years ago. Now, the market offers another opportunity to buy Canadian Western Bank on the cheap.

However, with the oil price outlook remaining negative, investors will need to be very patient in the bank before price recovers. In the meantime, sit back and collect the 3.7% dividend that is well covered.

### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

### **TICKERS GLOBAL**

1. TSX:CWB (Canadian Western Bank)

**Category**

1. Bank Stocks
2. Dividend Stocks
3. Investing

**Date**

2025/08/23

**Date Created**

2015/09/22

**Author**

kayng

default watermark

default watermark