



Canadian Western Bank Hikes its Dividend Again

Description

Canadian Western Bank ([TSX:CWB](#)) just increased its quarterly dividend to 23 cents per share, which is 9.5% higher than it was a year ago. This is the second dividend hike in 2015. The dividend is payable on January 7, 2016. To get that dividend, shareholders need to hold the shares by December 12.

The bank has increased dividends for 23 years in a row and takes the third place for that achievement for Canadian publicly traded companies.

Business performance

The bank's net income was down 7% and adjusted earnings per share (EPS) were down 6% compared with the fourth quarter in the previous year.

However, Canadian Western Bank still managed to deliver double-digit loan growth for the 25th time in 26 years. Almost 25% of its 2015 loan growth came from outside western Canada, which shows that management is competing successfully in other markets.

Compared with the previous year, the bank achieved the following in fiscal year 2015:

- It completed divestitures of Canadian Direct Insurance and Valiant Trust
- Adjusted EPS was \$4.01 from combined operations
- Net income from continuing operations increased by 1% to \$208.1 million
- Adjusted EPS from continuing operations was \$2.63, up 2%
- It had loan growth of 11% with stable credit quality

Market performance and loan diversification

The market hasn't been kind to Canadian Western Bank. Its shares are down 39% from 2014's high of \$41 to under \$25. The shares now yield 3.7%. The market is concerned about the bank's loan exposure in Alberta and Saskatchewan.

Particularly, 41% of loans are in Alberta and 7% are in Saskatchewan. However, investors shouldn't forget that it also has 52% of loans in other regions, including 33% of loans in British Columbia.

Additionally, only 1.6% of loans are oil and gas production loans, while 75% of loans are commercial mortgages, general commercial loans, equipment financing and leasing, or real estate project loans. Personal loans and mortgages account for 17%, and corporate lending accounts for 6.4%.

Medium-term targets

Medium-term targets imply a time horizon of three to five years. In this time frame Canadian Western Bank anticipates an annual adjusted EPS of 7-12%, an annual return on equity of 12-15%, and a payout ratio of roughly 30%.

In conclusion

Canadian Western Bank's conservative payout ratio is around 30%, so shareholders should be reassured that the dividend is safe. At the same time, the shares are trading at a huge discount of over 35% from historical levels.

Of course, the million dollar question is, When will oil prices recover?

Without a recovery in the Albertan economy, Canadian Western Bank will need to look elsewhere for growth. Thus, Foolish investors should have a holding period of at least a three to five years before considering the shares.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. TSX:CWB (Canadian Western Bank)

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