



## Is Canadian Western Bank's Turnaround for Real?

### Description

**Canadian Western Bank's** ([TSX:CWB](#)) share price has followed suit in correlation with the ups and downs of the WTI oil price since 2014. The WTI oil price has recovered in the past week, and Canadian Western Bank's shares rallied strongly as a result. Since Monday the bank has climbed about 14% from roughly \$25 to \$29.

Canadian Western Bank has a focus on the western part of Canada with 41 branches, two trust locations, and two wealth management locations. Historically, the bank has been run conservatively with a solid credit quality and a low payout ratio of 35% or less.

### Why higher oil prices caused a rally in the bank

Canadian Western Bank has 41% of its loans in Alberta. Because investors have been concerned about potential losses in that area, the lower oil prices fell, the lower the bank's share price fell.

However, perhaps investors' concerns are excessive. The bank's five-year average provision for credit losses from 2012 to now has been lower than the Big Six banks in Canada.

Most recently, in the first quarter of this year Canadian Western Bank's provision for credit losses was 18 basis points, which was lower than all of the Big Six banks'. For comparison, the Big Six banks' average provision for credit losses in the first quarter was 33 basis points.

If the WTI oil price continues to head higher, the concern about potential credit losses would be further lifted, as would the weight on the bank's share price. Besides, Canadian Western Bank only has 2% of oil and gas production loans.

### Shareholder friendly

Canadian Western Bank is the third-best dividend-growth company in Canada. It has increased its dividend for 24 consecutive years. Although its earnings per share (EPS) declined 5% last year, the bank still managed to hike its dividend by 9.5% for the year. And its payout ratio is still only 35% of its 2015 EPS.

In the first quarter, the bank experienced 0% growth in its EPS. However, the bank aims to grow its EPS by 7-12% in the medium term. With a conservative payout ratio, the bank should have no trouble maintaining its dividend and its dividend-growth streak.

### **Conclusion: Is the bank's rally sustainable?**

Because of Canadian Western Bank's loan concentration in Alberta, there's no way around the bank trading in correlation with the movements of the WTI oil price.

If the oil price remains at the low US\$40 level, the bank's shares are likely to trade sideways for a period of time because it's currently overbought.

However, if the WTI oil price makes its way slowly higher, and recovers to, say, the US\$50 level, fundamentals will trump the technical stuff, and Canadian Western Bank will also find its way higher.

Compared with its normal historical multiple, the bank is still discounted by at least 17%, implying a potential upside of at least 20%. Additionally, the bank's dividend yield of 3.2% is sustainable.

### **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**

2016/04/22

### **Author**

kayng

default watermark