



Why Did Canadian Western Bank Fall 7%?

Description

Canadian Western Bank ([TSX:CWB](#)) fell 7% on Tuesday. The quick fallout was due to an update of its loan loss guidance. Higher credit losses are expected due to weak oil prices. However, it's important to note that the bank has remained profitable for almost 28 years through good and bad economic environments.

Loan loss guidance update

Canadian Western Bank updated its expected provisions for credit losses for the second quarter of fiscal 2016.

Specifically, the bank recorded about \$33 million of second-quarter provisions for credit losses on its oil and gas production portfolio due to weak oil prices and borrowing base redeterminations.

It now expects its second-quarter provision for credit losses to be about \$40 million, which would be 440% higher than the second quarter of 2015.

The bank's previous 2016 loan loss guidance was 18-23 basis points, and it has now been revised to 35-45 basis points. Even if this materializes, the range still aligns with the provision for credit losses (21-45 basis points) the Big Six banks experienced in the first quarter of 2016.

Canadian Western Bank is still profitable

Canadian Western Bank's president and CEO Chris Fowler stated, "Our capital ratios are strong, and outside of [our oil and gas production] portfolio, credit quality is consistent with our prior expectations."

When the bank reports the 112th consecutive profitable quarter on June 2, it will mark the bank's 28th consecutive year of profitability.

Outside Alberta, the bank has 34% and 16% of loans in more stable provinces of British Columbia and Ontario and others. These should help the bank remain profitable.

In the first quarter, the bank's earnings per share (EPS) were flat, which is a strong feat for the adverse environment it's navigating. The bank expects growth to resume eventually, and guides a medium-term target for annualized EPS growth of 7-12%.

Sharing profits with shareholders

Canadian Western Bank takes the third place of one of Canada's top dividend-growth stocks. It has increased its dividend for 24 consecutive years.

For the past five years, its average annualized dividend-growth rate was over 14%. Although the last couple of years, dividend growth has been around 10%, but it is still higher growth than many other companies.

Based on its 2015 earnings, the bank's payout ratio is about 35%. This conservative payout ratio makes its quarterly dividend per share of 23 cents sustainable.

At about \$25.60 per share, the bank yields 3.6%.

Conclusion

It's true that Canadian Western Bank can experience more downside and volatility as the oil-price drama unfolds. However, the bank remains profitable and seems to be committed to sharing profits with shareholders through a strong dividend.

Shareholders should not panic about the bank's one-day drop; instead, consider adding to it when its dividend yield is favourable enough. For example, the bank shows strong support at the \$20 level with a 4.6% yield.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. TSX:CWB (Canadian Western Bank)

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