

What You Should Know About Canadian Western Bank

Description

Early this year, **Canadian Western Bank** ([TSX:CWB](#)) traded below \$20 per share. Since then it has recovered above \$27, rising 35%. Is the bank finally turning around?

The business

Canadian Western Bank has 41 branches across Canada that provide banking services. It also has two locations that provide trust services and two other locations that provide wealth management services.

The bank has 40% of its loans in Alberta, 35% in British Columbia, 6% in Saskatchewan, 3% in Manitoba, and 16% in Ontario and others.

The bulk of the bank's lending is divided across five main sectors: commercial mortgages (19%), general commercial loans (19%), real estate project loans (19%), equipment financing and lease (18%), and personal loans and mortgages (17%). Oil and gas production loans only make up 2% of its lending.

Developments

In the second quarter, Canadian Western Bank experienced 14% loan growth compared with the second quarter of 2015. And the more stable provinces of British Columbia and Ontario account for two-thirds of the growth from last year.

Additionally, the bank is making an effort to diversify away from Alberta. In March the bank acquired CWB Maxium Financial, and by the end of July the CWB Franchise Finance acquisition is expected to close.

The bulk of the acquisitions' businesses are outside of western Canada, and they offer specialized financing solutions that help diversify the business.

This year the acquisitions should be slightly accretive to the adjusted net income, but their contributions are expected to accelerate after that.

Valuation

Because Canadian Western Bank's earnings per share declined 5% last year and is expected to decline some more this year, its fair value, which is based on its 10-year normal multiple, is just under \$34 per share.

In the bank's second-quarter corporate presentation, it showed that the bank's book value per share has been on a general uptrend since 2007.

Typically, its share price grows with its book-value growth. However, its share price has fallen in two years: it fell in 2008 because of the financial crisis and in 2015 because of the oil glut.

Canadian Western Bank is a time-tested business. And if history is telling, the bank will recover once again. In fact, I think it's already turning around.

Track record

As of the end of April, Canadian Western Bank has been profitable for 112 consecutive quarters (equating to 28 years).

While the company has been profitable, it's also been rewarding shareholders by growing its dividend. In fact, it has a 24-year dividend-growth track record.

Conclusion

If Canadian Western Bank's three- to five-year targets of growing its adjusted earnings per share by 7-12% and maintaining a return on equity of 12-15% every year hold true, the bank is discounted by about 18%, assuming it will eventually recover to its normal multiple.

The bank pays a quarterly dividend of \$0.23 per share, equating to an annual payout of \$0.92 per share, which implies a payout ratio of roughly 40% for this year.

The dividend is sustainable, but based on the bank's target of paying out about 30% of its earnings, it might decide not to increase its dividend this year. It has until December 2017 to decide whether to raise its dividend or not to maintain its annual dividend-growth streak.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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1. TSX:CWB (Canadian Western Bank)

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