4 Reasons Why Canadian Western Bank Is a Great Contrarian Investment

Description

The energy patch has been troubling for investors for some time as the slump in crude has lasted far longer than many industry insiders and market pundits ever predicted. Even the recent rally that saw crude move above the psychologically important US$50 per barrel mark earlier this month has proven to be short-lived because fundamentals have failed to support higher prices.

This has not only had a sharp impact on energy stocks, but also on those companies with considerable direct and indirect exposure to the energy patch, such as **Canadian Western Bank** (TSX:CWB). As a result, its share price has plunged by 16% over the last year. While concerns continue to linger because of the impact of the oil rout on its core market of western Canada, this represents a buying opportunity for four key reasons.

Now what?

Firstly, unlike many of its larger competitors, Canadian Western has relatively low direct exposure to the oil industry.

Canadian Western's direct exposure to the beleaguered oil industry is a mere $327 million of drawn loans, or just over 1.5% of the total value of its loans under management. This is in comparison to **Bank of Nova Scotia's** $16 billion in committed loans, which represents 3.5% of the value of its loan portfolio.

Secondly, it has a quality balance sheet with relatively low credit risk.

The overall quality of Canadian Western's loan portfolio remains high, despite the impact of weak oil prices on western Canada and an uptick in impaired loans. By the end of the second quarter 2016, the ratio of gross impaired loans to total loans was a mere 0.7%, well below the level that indicates that a bank's balance sheet is becoming unhealthy.

Canadian Western is also actively managing credit risk within its loan portfolio and this, along with its uninsured mortgages having a conservative average loan-to-valuation ratio of 70%, will help to bluntthe impact of the economic downturn in western Canada on its loan portfolio.

Thirdly, Canadian Western remains focused on growing and diversifying its business.

During the first quarter 2016, Canadian Western completed an important accretive acquisition that has broadened its exposure to eastern Canada, making it less dependent on western Canada. This was the purchase of the Maxium Group companies, which significantly boosted its presence in Ontario and added $1 billion in lending assets to its balance sheets.

It also launched CWB Wealth Management during the same quarter and is now in the process of acquiring **GE Capital's** franchise financing business.

Finally, Canadian Western now appears to be attractively priced.

With its share price 17% lower than its 52-week high, it is trading with some very attractive valuation metrics. These include a price that is a mere one times its book value and 10 times its earnings.

In fact, with the exception of **Laurentian Bank of Canada,** Canadian Western's price-to-book value is lower than its peers and, this along with its quality portfolio of lending assets, makes it an attractive buy at this time.

So what?

Canadian Western shapes up as an appealing but contrarian play on the price of crude and the health of Canada's economy. What makes it even more appealing is that Canadian Western has hiked its dividend for the last 22 years straight, giving it a tasty 3.7% yield, yet it only has a modest payout ratio of 39%.

This juicy but sustainable dividend will reward patient investors as they wait for Canadian Western's share price to appreciate in value as the price of crude firms and western Canada's economy improves.

CATEGORY

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

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