



Canadian Western Bank: Higher Risk, Lower Reward

Description

Canadian Western Bank ([TSX:CWB](#)) is one of those tricky stocks to look at from a long-term perspective in the current environment. I'm going to attempt to put this bank's risk/reward profile into perspective, comparing its dividend yield to the major Canadian banks'.

In my mind, I have segregated Canadian banks into three segments: the "Big Five" Canadian banks, smaller regional banks, and alternative lenders/tertiary banks serving markets that may be underserved by banks in the first two segments.

As part of a well-functioning economy, I agree that the need for these three categories of banks exists. That said, it can be very tricky to place specific banks into a particular bucket, as a bank such as Canadian Western Bank may exhibit attributes of all three categories within its business model, acting as a large bank, regional bank, and alternative lender all at the same time.

One thing is certain: Canadian Western Bank is much riskier than the Big Five Canadian banks, offering a significant percentage of its loans to borrowers in some of the most over-leveraged and economically challenged parts of the country compared to a more diversified portfolio of assets held by larger banks. Traditionally, Canadian Western Bank has made its living serving western Canada, which, for a long time, meant primarily the Albertan market. As the oil market softened and commercial businesses related to the oil industry also took a hit, Canadian Western Bank began increasingly searching for diversified returns across the country.

As I have commented [recently](#), it appears to me that Canadian Western Bank is taking on higher levels of risk with respect to its growing alternative lending portfolio, and yet the bank does not offer investors a sufficient return for taking this risk.

Let's look at Canadian Western Bank's dividend yield compared to the "Big Five" banks, as an example:

Bank	5-Year Historical Dividend Yield	TTM Dividend Yield
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Canadian Imperial Bank of Commerce	4.53%	4.67%
Bank of Montreal	4.16%	3.81%
Bank of Nova Scotia	4.12%	3.81%
Royal Bank of Canada	3.90%	3.56%
Toronto-Dominion Bank	3.40%	3.48%
Canadian Western Bank	2.53%	3.66%

It boggles me why an income-focused investor would consider Canadian Western Bank and the company's increased risk profile when each of the Big Five Canadian banks posted a **substantially** higher historical dividend yield and an equivalent or better trailing 12-month yield as well.

Bottom line

Of all the Canadian banks, alternative lenders and regional banks with significant exposure to the Albertan economy or the Toronto/Vancouver housing bubbles are banks I want to avoid. Bubbles are easy to see in hindsight, and while many have considered the Albertan bubble to have already popped, I would argue that harder times are more likely to come than a sustained rebound, given the poor long-term outlook I have for the Canadian oil market overall.

Stay Foolish, my friends.

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