

These 3 Alternative Lenders Should Outperform the Canadian Banks Now That Rates Have Increased

Description

Last month, Canada's central bank, the Bank of Canada, announced a policy shift that suggests we are now in an environment of rising interest rates. The announcement effectively means that Canadian households and businesses will have to pay more when they want to borrow money.

Naturally, this is a boon for lenders who can book higher interest income without having to incur any additional expenses. The surplus interest income flows directly to the bottom line.

As always, there will be winners and losers to come out of the announcement and resulting policy shift as things shake themselves out.

Fortunately, these three alternative lenders stand a good chance of coming out on the winning end as they generate most of their income from interest charges as opposed to the larger, more traditional lenders, like **Royal Bank of Canada**, which makes the bulk of its income from fees on services like wealth management.

Banks that generate significant earnings from fees, which are largely unaffected by the news, will effectively have earnings gains "watered down," while these three alternative lenders are much more leveraged to interest rate changes.

Without further ado, here are your top three alternative lenders.

Canadian Western Bank ([TSX:CWB](#))

CWB does most of its banking in the western half of Canada, so things have been tough over the past few years owing to lower energy and commodity prices.

As a result, shares trade just above book value, which is a conservative measure that famous investors have looked for in the past, including the likes of Warren Buffett and Benjamin Graham.

CWB shares trade at 10.5 times forward earnings, which is considerably cheaper than the market average of 18 times and with 75% of revenue being comprised of interest income, the company could turn out to be a bargain at Monday's closing price of \$28.24.

National Bank of Canada ([TSX:NA](#))

While CWB has a western focus, National Bank's key regions are Quebec and Ontario.

The company has a large book of mortgage loans originating from Ontario, a province that has seen a pretty steep rise in housing prices, which could make those loans a little riskier than the national average.

Yet while the firm saw a spike in credit losses of \$484 million during fiscal 2016, those losses have normalized for the current year, recording just \$220 million, or roughly half that total, over the past 12 months.

Like CWB, National Bank trades at a reasonable valuation of 10 times forward earnings, which is below the market averages, but, moreover, below the averages of traditional lenders like Royal Bank, which trade closer to 12 times.

Laurentian Bank of Canada ([TSX:LB](#))

Laurentian Bank gets two-thirds of its income from interest, and with a loan book of over \$33 billion, it's obvious that even a small change in interest rates can make a big difference in the company's profits, which came in at \$150 million last year.

This hasn't gone unnoticed by the market either; since the central bank announcement, there have been two new "Strong Buy" recommendations initiated on LB shares.

Laurentian Bank is up 15% over the past 12 months, but the shares are down 11% since the start of 2017, suggesting now might be an opportune time to add this stock to your TFSA.

Conclusion

While the recent rate hike might have negative connotations for the average Canadian household, it certainly isn't bad news for everybody.

Those investors who are willing to look past the headlines may find that the current market environment offers many profitable opportunities provided they're willing to think *Foolishly*.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:LB (Laurentian Bank of Canada)
3. TSX:NA (National Bank of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date

2025/09/10

Date Created

2017/08/31

Author

jphillips

default watermark

default watermark