Why the Best-Performing Bank Stock Will Surprise You

Description

In the next few weeks, **Canadian Western Bank** (TSX:CWB) is going to announce its earnings, which will probably send the stock up or down by at least 5%, potentially more. To the surprise of many, the company has been performing very well over the past several months and now offers investors a dividend yield of no more than 2.75%.

When comparing this name to Canada's Big Five banks, which investors are very familiar with, many do not want to take the leap into shares of a more regional bank with a higher potential for growth, which could result from expanding into the eastern part of the country. Although the dividend yield has decreased alongside a higher share price, investors need to appreciate what this company continues to offer when compared to the better-known names.

When taking shares of **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) as a basis for comparison, the company has a much stronger Canada-wide footprint with added diversification in South America. The dividend yield is a much higher 3.75%, but the opportunities for growth (for a company of that size) remain largely unavailable. To move the needle by 10% for a company with earnings of more than $7 billion, the increase has to be no less than $700 million. For Canadian Western Bank, there are many more opportunities available to obtain an increase in the bottom line of only $20 million.

Shares of Bank of Nova Scotia increased by approximately 13% throughout 2017 calendar year and by more than 19% over the past year. Shares of much smaller Canadian Western Bank, however, win; they increased by more than 16% on a year-to-date basis and by over 35% over the past 12 months.

Investors need to be diligent when making an investment to ensure that they are taking advantage of the opportunities presented to them. Given that Canadian Western Bank derives a large part of its bottom line from Alberta (which is driven by the oil sands), the reality is that the company, which was hard hit, offered investors an incredible opportunity, as the share price had already been beaten up.

At a 52-week low of $23.68 per share, investors had the ability to purchase shares at a discount to tangible book value and receive a dividend of almost 4% in the process. Essentially, times of distress which bring challenges to the Canadian economy can be seen as opportunities by investors seeking above-average returns.

Shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) have been the worst performing of the group, as a major U.S.-based wealth management acquisition was recently completed, bringing new challenges and, of course, the uncertainty of finding old ghosts hiding in the office of the acquired company. There is always the potential for a one-time write-down when a major acquisition is completed.

Investors seeking higher returns must be willing to accept a higher level of risk to go along with them. As the year's worst performer (and highest dividend yielder) Canadian Imperial Bank of Commerce may just be the best horse to bet on for the next 52 weeks.

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