Why This Canadian Bank Is a Hot Potato: Nobody Wants to Hold it!

Description

Over the past six months, shares of **Canadian Western Bank** (TSX:CWB) have increased by close to 45% in addition to paying investors a quarterly dividend of $0.24 per share. Investors who got in at the right time have done very well, while those who sat on the sidelines have completely missed the boat.

The bank based in Alberta has a significant number of headwinds from low oil prices to a forest fire which wiped out Fort McMurray over the past two to three years. In spite of doing a number of things correctly, the truth is that investors would not give the company the respect it deserved, sending shares to less than the company's tangible book value (on a per-share basis), while earnings and dividends remained positive. Effectively, the investment fell out of favour.

Now, after a fantastic run amid higher oil prices, shares of the bank have started to trade on the pricey side. At a price of $38 per share, investors are not only buying at a 52-week high, but they are buying at a yield of approximately 2.5%. Although shareholders like to see shares appreciate, investors should realize that the next buyer won't receive the same yield on cash. Instead, the yield offered to the next buyer is no better than the current dividend divided by the share price.

Although there remains a significant amount of potential as the provincial economy turns the corner, many owners have taken the right approach of passing the hot potato, as shares are now priced at a multiple of 1.4 times tangible book value. Although this may not seem expensive to all buyers in comparison to the Big Five banks, it must still be understood that the company has not traded at this multiple since the beginning of 2015.

Given the current situation (on a comparative basis), investors have no reason to hold shares in this company. When looking to the east, shares of **Laurentian Bank of Canada** (TSX:LB) are at a price of $57.50 and trading at approximately tangible book value. Shares offer a dividend yield close to 4.5%. When compared to Canada's five major banks, shares of the Quebec-based institution offer the best dividend yield. To boot, the dividend-payout ratio is no more than 40% of earnings, which is below the historical averages of the industry.

For many investors not willing to take the plunge into any of the regional banks due to the higher amount of volatility, there will sometimes be a significant amount of reward that is missed. For others who are willing to take the risk in the hopes of achieving a higher than average reward, shares of Laurentian Bank of Canada may be the way to go.

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2. TSX:LB (Laurentian Bank of Canada)

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