Why Canadian Western Bank Is Rallying Over 2%

Description

Canadian Western Bank (TSX:CWB), one of Canada's largest diversified financial institutions, announced its fiscal 2018 first-quarter earnings results and a dividend increase this morning, and its stock has responded by rising over 2% at the open of the day's trading session. Let's break down the results, the dividend hike, and the fundamentals of its stock to determine if now is the time to buy.

A strong start to the fiscal year

Here's a quick breakdown of 10 of the most notable financial statistics from CWB's three-month period ended January 31, 2018, compared with the same period in 2017:

Metric	Q1 2018	Q1 2017	Change
Net interest income	$171.27 million	$155.75 million	10.0%
Non-interest income	$21.95 million	$19.48 million	12.7%
Total revenue	$193.22 million	$175.23 million	10.3%
Common shareholders' net income	$61.93 million	$49.54 million	25.0%
Adjusted cash earnings per share (EPS)	$0.75	$0.61	23.0%
Assets	$27.91 billion	$24.81 billion	12.5%
Loans	$24.27 billion	$21.77 billion	11.5%
Deposits	$22.81 billion	$20.68 billion	10.3%
Assets under management	$2.19 billion	$1.97 billion	10.9%
Book value per share	$24.98	$23.77	5.1%

Rewarding its shareholders

In the press release, CWB announced a 4.2% increase to its quarterly dividend to $0.25 per share, and the first payment at the increased rate is payable on March 30 to shareholders of record on March 16.

Is now the time to buy?

CWB kicked off fiscal 2018 with an outstanding first-quarter performance, highlighted by double-digit percentage growth in both revenue and adjusted cash EPS, so I think the +2% pop in its stock is warranted; furthermore, I think the stock still represents a very attractive long-term investment opportunity for two fundamental reasons.

First, it's still undervalued. CWB's stock still trades at just 12.5 times the consensus EPS estimate of $2.98 for fiscal 2018 and only 11.2 times the consensus EPS estimate of $3.31 for fiscal 2019, both of which are inexpensive given its current double-digit percentage earnings-growth rate and its estimated 9.8% long-term earnings-growth rate; these multiples are also inexpensive given the low-risk nature of its business model.

Second, it's a dividend superstar. CWB now pays an annual dividend of $1.00 per share, which brings its yield up to a respectable 2.7%. It's also very important to note that the bank was already on track for fiscal 2018 to mark the 26th consecutive year in which it has raised its annual dividend payment, and the hike it just announced puts it on pace for fiscal 2019 to mark the 27th consecutive year with an increase.

With all of the information provided above in mind, I think all Foolish investors seeking exposure to the banking industry should strongly consider initiating long-term positions in Canadian Western Bank today, and my Foolish colleague Ryan Goldsman agrees. However, if you want to hear an opposing view on CWB, check out Joey Frenette's views here.

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