1 Non-Energy Stock Poised to Benefit From Higher Oil

Description

Oil's latest rally, which saw West Texas Intermediate (WTI) trading at over US$70 per barrel for the first time since late 2014, has brought the spotlight firmly back on energy stocks. While Canadian oil companies will certainly benefit from the latest rally, it will also generate considerable benefits for non-energy stocks operating in the energy patch. One such company that was hit hard by the prolonged oil slump is **Canadian Western Bank** (TSX:CWB).

Now what?

You see, the majority of Canadian Western's business is focused on western Canada — notably, the heart of the oil patch, which lies in Alberta and Saskatchewan. When oil prices collapsed almost overnight in late 2014, its business suffered as the surrounding economy weakened sharply, and local growth opportunities dried up, as energy companies significantly scaled back investing in the region, cut costs, and laid off staff.

Clearly, if higher oil remains in play for a sustained period, there will be a marked uptick in investment in Canada's energy patch, while oil producers will start hiring again and investing in existing as well as new projects. That bodes well for the economies of Alberta and, to a lesser extent, Saskatchewan and British Columbia. This would certainly be a boon for Canadian Western, which has only gained a modest 4.6% over the last month because of higher oil.

The bank reported a solid first-quarter 2018 operating performance, predominantly driven by the optimism that is returning to the energy patch, since oil firmed towards the end of 2017. Net income grew by a remarkable 25% year over year to $62 million, which was supported by solid loan growth, which saw Canadian Western's credit portfolio expand by 11%, while deposits popped by 10%.

Meanwhile, credit quality remained high. The gross impaired loans came to 0.57%, which was lower than the 0.72% reported for the previous quarter and the same as the equivalent period in 2017. The bank has no credit exposure to oil and gas production, reducing the potential impact of any decline in oil prices should the current rally come to an abrupt halt.

Canadian Western also has one of the lowest ratios of credit loss provisions to total loans of any of

Canada's banks. For the first quarter, the ratio came to 0.18% and was 0.04% lower than the bank's five-year average. The outlook for credit quality is improving, because of the general economic uplift that should occur in Alberta as oil rises, which means that not only will demand for credit grow, but borrowers will find it easier to repay existing credit facilities.

In fact, the provinces of British Columbia, Alberta, and Saskatchewan are responsible for 72% of the balance of loans outstanding. Canadian Western has also focused on expanding its business footprint in eastern Canada in order to lessen its dependency on the energy patch and western Canada to grow its business.

So what?

Now is the time to buy Canadian Western. The renewed optimism surrounding oil and the energy patch will give the bank's lending operations a healthy boost, leading to a firmer bottom line, which, in conjunction with its high-quality credit portfolio, should give its market value a solid lift. While patient investors wait for that to occur, they will be rewarded by Canadian Western's regular sustainable dividend, which the bank has hiked for the last 26 years straight to give it a yield of just under 3%.

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