



1 Canadian Bank Poised to Benefit From Higher Oil

Description

Firmer [oil prices](#) have sparked a flood of investment in Canada's energy patch, as investors and industry insiders alike seek to cash in on undervalued energy stocks that are due to rally because of higher crude. It isn't only beaten-down oil stocks that will benefit from higher oil; a range of businesses operating in Alberta and Western Canada will also benefit, as the tempo of activity and level of investment in the energy sector grows.

One company that stands out as an attractive deep-value investment opportunity is **Canadian Western Bank (TSX:CWB)**, which was punished by markets when oil collapsed in late 2014 because of its focus on Alberta and Western Canada. While the North American benchmark West Texas Intermediate (WTI) has soared by 12% since the start of the year Canadian Western has lagged behind, losing just over 3%, creating an opportunity for bargain-hungry investors.

Now what?

Canadian Western reported some robust second-quarter 2018 results, which saw net income rise by an impressive 27% compared to a year earlier. That can be attributed to solid increase in net interest income, which was 17% greater year over year because of 12% growth in loans — notably, higher margin commercial loans. That healthy loan growth can be attributed to the broader Canadian economy as well as the Alberta, economy picking up in recent months because of higher oil.

You see, crude's unanticipated rally, which sees WTI trading at over US\$65 a barrel, has sparked a flurry of investment in the energy patch, as oil producers move to take advantage of higher prices. While I am not as bullish on crude as some analysts, there are [clear signs](#) that higher oil is here to stay. This will drive further investment in Western Canada, as drillers move to make up for the last three years where they were starved of cash flow and earnings.

The composition of Canadian Western's loan portfolio, where commercial lending makes up roughly 80% of all loans, leaves it well positioned to benefit from an economic rebound. This is because as drillers boost investment and confidence returns to the energy patch, demand for goods and services will expand at a healthy clip.

The improving economic outlook is reflected in recent improvements to quality of Canadian Western's credit portfolio. The value of gross impaired loans for the second quarter was just under \$123 million, which is a notable 11% less than a year earlier, giving the bank a ratio of gross impaired loans of a very respectable 0.5%. Because of the falling value of impaired loans, provisions for credit losses have also fallen, dropping by 9% compared to the equivalent period in 2017 to just under \$12 million. This is important to note because it releases capital that can be directed towards revenue-generating activities.

The bank is also well capitalized, ending the second quarter with a common equity tier one capital ratio of 9.4% and total assets of \$28 billion, which is a 14% increase compared to the same quarter in 2017.

So what?

Canadian Western is an appealing opportunity for investors seeking exposure to oil and the economic recovery underway in the energy patch. While oil may not surge to the highs that some analysts are predicting, it is clear that firmer oil is here to stay, and this will bolster economic growth in Western Canada. What makes Canadian Western even more alluring is its regular dividend payment, which it has hiked for the last 26 years straight, giving it a tasty yield of just over 3%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date

2025/08/24

Date Created

2018/08/21

Author
mattdsmith

default watermark

default watermark