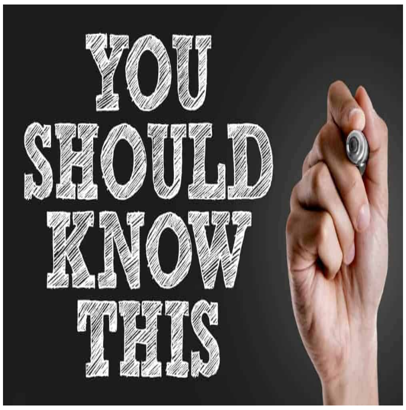

1 Canadian Bank to Soar, 1 to Ignore

Description

Are you thinking of buying one of the smaller Canadian banks?

If so, you must be considering **Canadian Western Bank** (TSX:CWB) or **Laurentian Bank of Canada** (TSX:LB). I strongly believe that one will soar and the other should be ignored.

Sit back and allow me to explain.

This bank will soar

Canadian Western Bank has a big exposure to Alberta. Specifically, 32% of its loans are in the resource province. So, the booms and busts of the Albertan economy, which is largely tied to oil and gas prices in Canada, will have a direct impact on the bank.

CWB data by YCharts. The long-term stock price chart of Canadian Western Bank.

Looking at the long-term price chart of Canadian Western Bank, you can see that it's like a roller coaster ride. Investors have to ride the wave — buy low and sell high — to make handsome capital gains.

Meanwhile, you can get, dare I say, *a guaranteed dividend* from the regional bank. The bank is a top five dividend stock in Canada for having increased its dividend for 27 consecutive years. This is a longer streak than the Big Six banks! It increased its dividend through multiple recessions and the 2014 oil price collapse.

And get this: Canadian Western Bank's payout ratio is only estimated to be roughly 34% this year, which implies that its dividend is absolutely secure. The dividend yield isn't puny either because of its low valuation. As of writing, the bank is good for a 4.4% yield.

Although 16% higher from when I recommended the stock, there's still plenty of upside for Canadian Western Bank for patient investors. At peaks of cycles, it can hit a price-to-earnings ratio (P/E) of 15. Normalized, it can reach a P/E of 12.5, which implies a fair value of about $38.60 per share or upside potential of about 32% as of writing!

Ignore this bank

Looking at the chart below that compares the long-term price performance of Canadian Western Bank and Laurentian Bank, I have two words to describe Laurentian Bank. An underperformer.

Data by YCharts

Investors may argue that Laurentian's dividend yield of 6.4% is much more appetizing than Canadian Western Bank's +4%.

Here's the counterargument. An investment in Canadian Western Bank since 1999 has delivered a compound annualized return of about 10%. In the same period, an investment in Laurentian delivered 5% per year.

Big dividend yields are nice, but ultimately, investors take home the total returns.

Another problem with Laurentian is that it has little growth, especially after the huge setback from revealing its problematic mortgages back in December 2017.

If you just care about Laurentian's dividend, though, you'll be happy to know that it seems safe. Based on the current quarterly dividend, the payout ratio is estimated to be less than 60% this year.

Additionally, Laurentian has increased its dividend every year since 2008. Its five-year dividend growth rate is about 5%.

Investor takeaway

If Laurentian can improve its loan profile, I don't doubt that the stock will pop. However, between Laurentian and Canadian Western Bank, when you look at their long-term total returns performance, I think the crystal ball is wholly clear. Canadian Western Bank will soar and Laurentian should be simply ignored.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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Date
2025/08/23
Date Created
2019/03/09
Author
kayng