Get Defensive: 3 Lesser-Known Banks for a Dividend Investor

Description

With some of the biggest banks in Canada exposed to an American economy rattled by a recent yield curve inversion, even the possibility of a recession south of the border could have the potential to change the way that people in this country invest in financials. With this in mind, let's take a look at three of the best TSX index-listed Canadian banks that may be going relatively unnoticed and that also pay dividends.

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VersaBank (TSX:VB)

This relatively low-key TSX index financials ticker can offer the value investor a 26% discount off the future cash flow value, showing that this stock is an intrinsic bargain (this is backed up by a P/E of 9.2 times earnings and by trading below book). VersaBank's one-year earnings growth is significant at 79.4%, while an average of 30.4% for the past half-decade is solid (as is its balance sheet).

Very significant volumes of shares have been bought by insiders not only in the last few months, but throughout the past year, meaning that VersaBank is a strong buy for anyone who puts faith in insider confidence. While a dividend yield of 0.82% may not be high, VersaBank's 18% expected annual growth in earnings is significant for a Canadian banker at the moment.

Laurentian Bank of Canada (TSX:LB)

Despite a negative past-year earnings rate, Laurentian Bank of Canada is often held up as a shining example of what a non-Big Six bank should look like. Along with the next stock on today's list, it's a solid buy for a passive-income investor looking to keep exposure to financials while avoiding any potential fallout from an American recession.

Like many other Canadian banks, Laurentian Bank of Canada has a low tolerance for bad loans, though its five-year average earnings growth of 14.3% shows that its track record is overall a healthy one and beats the Canadian banking average of 8.6% for the same period.

With low market ratios from a P/E of 9.1 times earnings to P/B of 0.8 times book, Laurentian Bank of Canada is a bargain for anyone looking to add passive income to a TFSA, RRSP, or other long-range plan, and pays a dividend yield of 6.25%, while expecting a competitive 9.2% annual growth in earnings over the next one to three years.

Canadian Western Bank (TSX:CWB)

Canadian Western Bank's past-year earnings growth of 12% beats the Canadian banking average of 10.5% by what counts as a significant margin the financial world. However, its five-year average earnings growth of 4.2% trails the industry's 8.6% for the same time period.

However, currently boasting a cool P/E of 9.9 times earnings and trading at book, this alternative to the Bay Street big boys pays a dividend yield of 3.8%, and is expecting an 8.6% expected annual growth in earnings, which is in line with the industry.

In terms of balance sheet health, one hopes that Canadian financial institutions don't have to deal with a surfeit of bad loans in the future, since almost all big bankers seem to have a low tolerance for them — Canadian Western Bank included.

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The bottom line

With strong balance sheets and track records, the above three tickers go to show that an investor need not stack shares in a Big Six banker to enjoy the same defensive attributes and passive income. Indeed, these three TSX index bankers may turn out to be safer places to hide, should the recent American yield curve inversion prove to be the harbinger of a downturn that some analysts hold it to be.

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