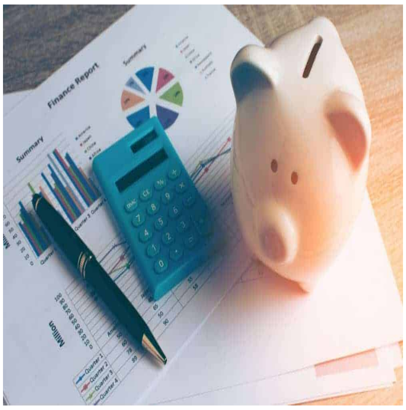


The 3 Cheapest Canadian Banks: Which Is the Best Buy?

Description

Canadian banks have generally been excellent long-term investments. In particular, their dividends are viewed as rock solid because they have maintained or increased them for many years.

Currently, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), **Canadian Western Bank** (TSX:CWB), and **Laurentian Bank of Canada** (TSX:LB) are the cheapest Canadian banks on the Toronto Stock Exchange.

A closer look reveals that one is the top choice as a best buy now.

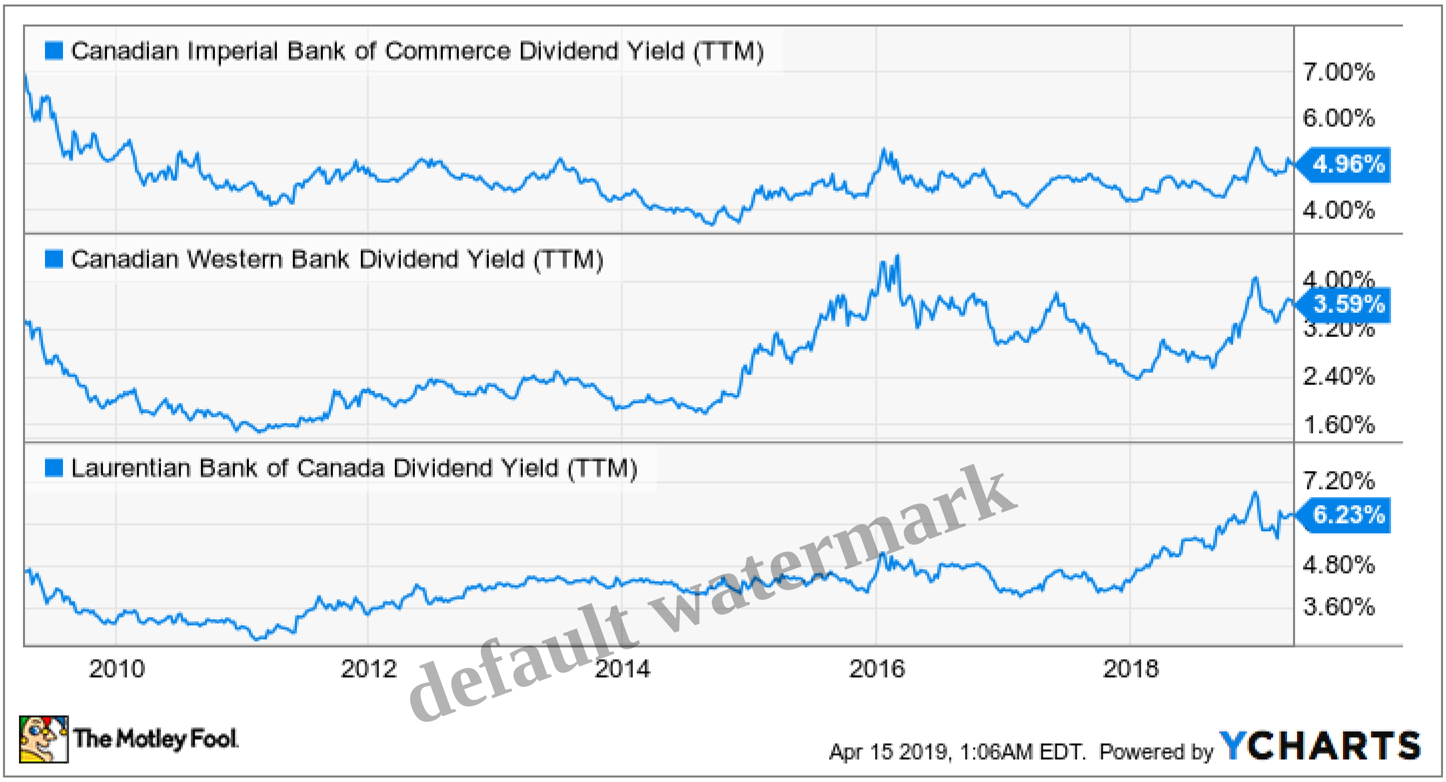
These Canadian banks are cheap

The trailing price-to-earnings ratio (P/E) of the industry is 10.6 on average, while the trailing P/E of CIBC, Canadian Western Bank, and Laurentian Bank are 9.7, 10, and nine, respectively.

The three banks are cheaper than the peer group on a forward basis as well. The forward P/E of the industry average is 9.6, while the forward P/E of CIBC, Canadian Western Bank, and Laurentian Bank are 8.7, 8.8, and 8.8, respectively.

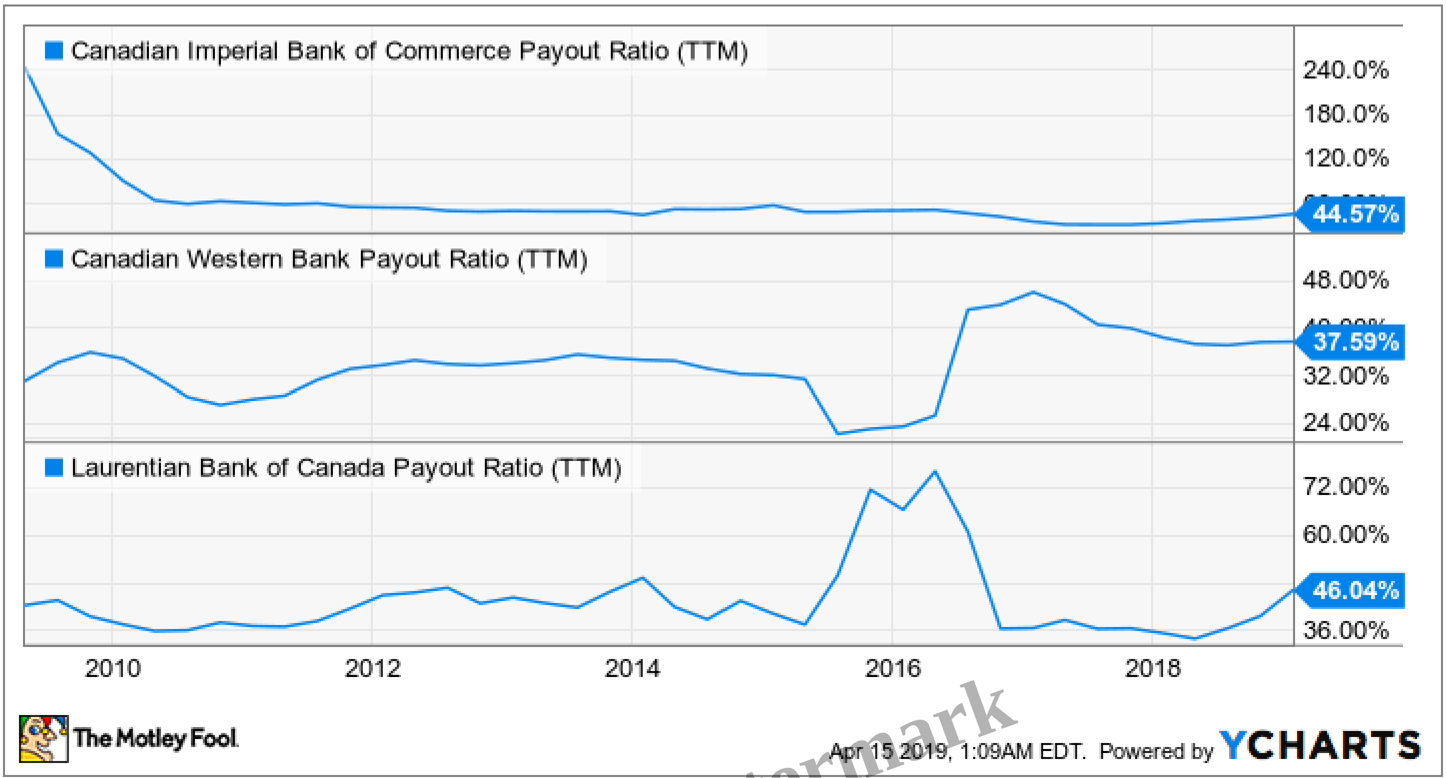
Big dividend yields

Thanks to their depressed stock prices, CIBC, Canadian Western Bank, and Laurentian Bank all offer relatively high yields compared to their historical levels.



CM Dividend Yield (TTM) data by YCharts. The 10-year yield history of CIBC, CWB, and LB.

None of their payout ratios look alarming. Actually, with payout ratios of below 50%, there’s a big margin of safety to keep their big dividend yields safe.



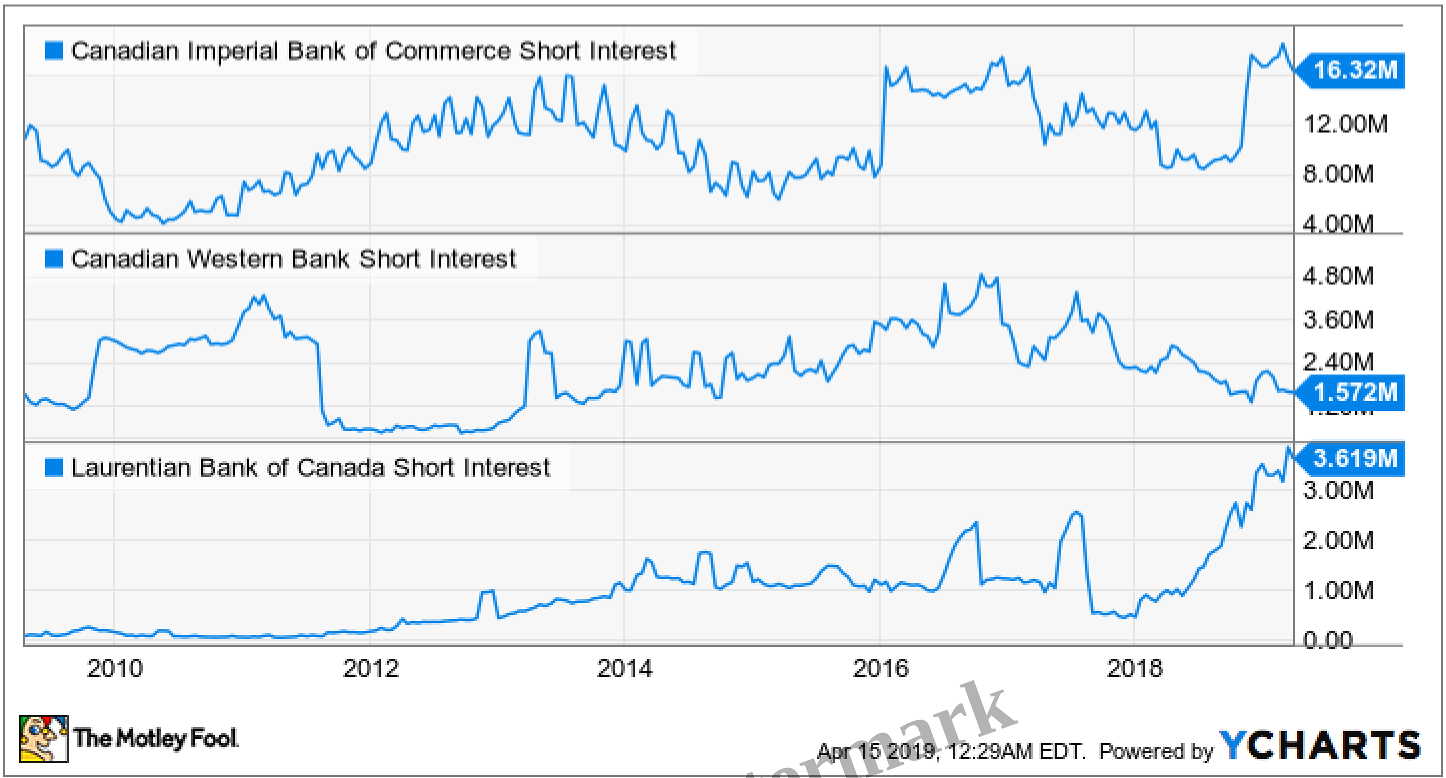
CM Payout Ratio (TTM) data by YCharts. The 10-year payout ratio history of CIBC, CWB, and LB.

As of writing, Laurentian Bank offers the biggest dividend yield of 6.3%, followed by CIBC's yield of 5.1%. Canadian Western Bank offers the lowest yield of 3.7%, which is actually still decently high compared to the 2.8% yield that the Canadian market offers.

Stocks that offer higher yields may indicate they're riskier. Looking at the short interest of the three banks can provide further insight into their risk levels.

Short interest

There has been renewed short interest in Canadian banks. As we see in the chart below, if the three banks were in a competition for the highest short interest compared to their historical levels, Laurentian Bank would be the champion, followed by CIBC as the runner-up, with Canadian Western Bank coming in last. This suggests that in the same order, the banks are ranked from riskiest to the lowest risk.



CM Short Interest data by YCharts. The 10-year short interest history in CIBC, CWB, and LB.

Investor takeaway

Of the three banks, Canadian Western Bank has the longest dividend-growth streak for having increased its dividend for at least 14 consecutive years. Moreover, it's estimated to have the highest earnings-growth rate on average in the medium term.

At under $29 per share, Canadian Western Bank trades at a P/E of about 9.4, while it's estimated to increase its earnings per share by 8.4% per year on average over the next three to five years. It also seems to be the lowest-risk stock of the three.

When the stock trades at its normal P/E, it'll be worth more than $37 per share, which represents nearly 30% upside potential for patient investors. Meanwhile, you can get a decent 3.7% yield from the quality bank.

There's no reason not to invest in Canadian Western Bank over the other two banks given its strong potential for higher total returns.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:CWB (Canadian Western Bank)
4. TSX:LB (Laurentian Bank of Canada)

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