A Top Bank Stock That's Not at the Top of Your Mind

Description

When it comes to the Canadian bank stocks, the Big Five banks, such as **Royal Bank** and **TD**, often steal the limelight. There's a much smaller Canadian bank that's a gem hiding in plain sight but very well run.

Canadian Western Bank offers a strong dividend

Indeed, too little credit is given to **Canadian Western Bank** (TSX:CWB) stock, as it has been working tirelessly in the background. It should be applauded for having increased its dividend per share for 27 consecutive years compared to the Big Five banks, which froze their dividends around the time of the last financial crisis (though that's no small feat either, as it was a period during which many banks around the world slashed their dividends!)

CWB's three-, five-, and 10-year dividend-growth rates are 5%, 7.2%, and 9%, respectively. More recently, its trailing 12-month payout was $1.06, which was 8.1% higher than in the prior period.

The bank's payout ratio is only estimated to be roughly 34% this year. So, there's a big cushion to protect the dividend even through tough economic times. Canadian Western Bank has maintained a payout ratio of 21-41% since 2008. Therefore, there's room for dividend growth as well.

Why CWB stock can do super well through next year

Canadian Western Bank is hated by the market at times (such as now) because of its above-average exposure to resource regions. It has 32% of its loans in Alberta. Naturally, when energy prices are low, the province's economy does poorly as well.

The Conference Board of Canada estimated that Alberta's gross domestic product (GDP) will be about 1.3%, the lowest in the country, this year. That's a big reason why CWB stock is trading at a basement valuation compared to historical levels.

Thanks to mandatory oil production cuts, the differential between the WTI oil price and the WCS oil price, which many Canadian oil producers get, has narrowed since the end of 2018. And the Conference Board of Canada estimates that Alberta's GDP will rebound — to be the highest in the country — about 3.5% by next year!

If so, Canadian Western Bank stock can do super well through next year.

Foolish takeaway

Canadian Western Bank is not a big bank stock. Because of its big exposure to Alberta, the stock is more volatile compared to the industry. As a result, there are times when it trades at low valuations (such as now!) and other times when it pops and trades at high valuations.

At $28.35 per share as of writing, CWB stock trades at a blended price-to-earnings ratio (P/E) of about 9.1, while its long-term normal P/E is 12.7, which represents a target price of about $38.60, or 36% upside potential.

Maybe you can even manage to sell it at above a P/E of 14, a level which it has traded at as recently as 2017. That would be a target price of more than $43.30, or more than 50% upside.

Now that CWB stock is trading at a bargain, it's a fabulous value opportunity for patient investors, who believe in the recovery of the Alberta economy, to buy the safe stock now for lucrative upside and, in the meantime, get a yield of about 3.6%.

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