



A Review of the Best of Canada's Smaller Banks

Description

Earlier this week, I offered a comparison to investors on two of the big banks, highlighting which bank was the better option for investors and if a [bigger bank really was better](#).

Today, let's evaluate a few of the smaller banks as investments.

Strong domestic network with international reach

National Bank of Canada ([TSX:NA](#)) is the sixth-largest lender in Canada and the smallest of the Big Six. Montreal-based National is predominately recognized within Quebec, where the bulk of earnings, including a strong mortgage portfolio, is derived.

That's not to say that National doesn't have an international presence. The U.S. Specialty Finance and International division of the bank posted a healthy 14% year-over-year improvement in the most recent quarterly update.

In terms of results, the personal and commercial arm of the bank reported net income of \$234 million in the most recent quarter, reflecting a solid 9% gain over the same period last year. Net income for the quarter came in at \$558 million, or \$1.51 per diluted share. Overall, this represented a gain over the amount posted in the same quarter last year but below the \$1.51 per diluted share that analysts were forecasting.

National announced a hike to its dividend, which now provides a competitive yield of 4.40%, which is more than competitive with the big banks.

National currently trades at just over \$61 with a P/E of 10.19.

Turn west for growth

Canadian Western Bank ([TSX:CWB](#)) is a [different bank to consider](#). Canadian Western is

concentrated on the Albertan economy, with a third of the bank's loan activity coming from Alberta. In other words, Canadian Western's performance fluctuates along with the resource-rich Albertan economy.

At the moment, that means that Canada's 10th-largest lender is trading at a discount.

That's not to say that Canadian Western isn't looking outside the Albertan and B.C. markets. The bank has moved to expand outside the west, with a growing loan portfolio in Ontario now making up a third of new loans.

Turning to dividends, Canadian Western provides a respectable 3.69% yield. While this is not the highest yield among Canadian banks, it is one of the most secure thanks to conservative payout ratio that comes in at under 40% of earnings. In the most recent quarter, the ratio was 36% and Canadian Western is targeting a payout ratio of 30%. By way of comparison, the big banks have payout ratios near 50%.

Canadian Western trades at just below \$30 with a P/E of 10.17.

A growing dividend awaits

Montreal-based **Laurentian Bank** ([TSX:LB](#)) often flies under the radar of most investors. Laurentian has a small presence in the U.S. market, but most of the bank's income hails from Quebec.

In terms of results, Laurentian's recent quarterly update missed expectations. The bank posted earnings of \$43.3 million, or \$0.95 per share, compared with \$59.2 million, or \$1.34 per share, in the same period last year.

The bank attributed the miss to a host of now-resolved issues at the bank, including a labour relations issue and an ongoing initiative to reduce costs, boost profits, and expand the use of technology. Over the trailing 12-month period, growth has remained relatively flat, but over the past two years, Laurentian's stock has dropped over 10%.

The higher risk of investing in Laurentian comes with a higher reward. The bank currently offers an appetizing 5.78% quarterly dividend which has grown over 25% in the past five years, including a 1.5% hike earlier this year.

Laurentian trades at just over \$45 with a P/E of 10.83.

Where should you invest?

All three of these smaller banks offer investors a solid path towards growth- and income-focused goals that are not reliant on the big banks. This makes them ideal holdings to balance a portfolio that already has one or more of the big banks.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:LB (Laurentian Bank of Canada)
3. TSX:NA (National Bank of Canada)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/07/05

Date Created

2019/06/26

Author

dafxentiou

default watermark

default watermark