This Canadian Bank Beat TD Bank's (TSX:TD) Dividend Growth

Description

The top Canadian banks have been excellent long-term investments. When it comes to the top Canadian banks, investors often think of **Royal Bank of Canada** and **Toronto-Dominion Bank**.

There's no doubt they're wonderful businesses, but the big players eclipse the results of one of our very solid domestic banks — **Canadian Western Bank** (TSX:CWB).

CWB's outperforming dividend growth

You'd be surprised that Canadian Western Bank's dividend growth actually beat the Big Six banks' since the pre-crisis levels.

From fiscal 2007 to 2018, the bank increased its dividend at a compound annual growth rate of 10.3%, which beat runner-up TD's dividend-growth rate of 8.5%.

In fact, CWB stock has increased its dividend for 27 consecutive years. At times, when the markets it serves were stressed, it still made token raises, while the big Canadian banks froze their dividends around the last recessionary period.

Specifically, CWB stock's five-year dividend-growth rate is 7.2%, while its trailing 12-month dividend per share is 8.2% higher year over year.

How is CWB different?

Canadian Western Bank has a large exposure to resource regions. That's why its earnings and stock price often move in lockstep with the ups and downs of the energy sector.

The bank has recognized that issue, and since late 2008, it has enhanced the resilience of its loan portfolio by reducing its Albertan loans from 52% of the portfolio to 32%. Its other loans are largely in more stable regions, including 33% in British Columbia and 27% in Ontario and other areas.

Notably, CWB only has 1% in oil and gas production loans, which means its profitability is more tied to the boom and bust of the markets it serves rather than the energy sector.

Moreover, CWB has been making efforts to transform from a regional lender to a full-service bank across the country, which should lead to more stable growth.

Most importantly, Canadian Western Bank has strong credit underwriting practices that have led to a track record of lower provision for credit losses compared to the Canadian bank average.

CWB will carry on increasing its dividend, as it maintains a big margin of safety for its payout ratio, which is expected to be about 34% this year's earnings.

Foolish takeaway

CWB is underappreciated. However, it's not your typical buy-and-hold bank because of its volatility. It must be bought and sold strategically. At under $31 per share, it trades at a cheap multiple of less than 10 times earnings and offers a safe yield of 3.5%.

When the stock reverts to the mean, it can easily trade at more than $39 for +25% upside. However, higher risk tolerance and tremendous patience are needed of investors.

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