



Dividend Investors: The Best Canadian Bank Stock to Buy Right Now

Description

When it comes to the best [Canadian bank stocks](#) to buy, the top choices often revolve around the biggest names: **Royal Bank of Canada** and **Toronto-Dominion Bank**.

Indeed, any bank that's smaller than the Big Six is often ignored. Yet **Canadian Western Bank** ([TSX:CWB](#)) is one of the best banks to buy right now for several reasons.

Safety

Likely because of its greater exposure to resource regions than other banks, Canadian Western Bank has a laser focus on credit quality. The bank's provision for credit losses on total loans is lower than the average of the Big Six banks most of the time.

Even in 2016, when there were elevated oil and gas losses, Canadian Western Bank's provision credit losses was only 0.38% — two basis points higher than the Big Six banks' average.

Notably, only about 1% of the bank's loan portfolio is exposed to oil and gas producers. The rest of its portfolio is diversified across general commercial loans, equipment financing & leasing, personal loans and mortgages, commercial mortgages, and real estate project loans.



Valuation

Over the years, Canadian Western Bank has significantly improved its geographic diversification. Since late 2008, it has grown its loan portfolio from \$8.7 billion to \$27.4 billion.

Although it has immensely reduced its Alberta exposure from 52% to 32%, it still has great exposure to the resource region. Therefore, whenever the energy sector runs into trouble, as is what's happening now, the bank's valuation tends to be dragged down.

At \$30.70 per share as of writing, CWB stock trades at a cheap valuation compared to historical levels — specifically, a discount of about 30%. This makes CWB stock a wonderful opportunity today, offering more than 40% upside potential and a decent 3.5% dividend yield for the wait.

Dividend history

CWB stock has increased its dividend for 27 consecutive years with a five-year dividend-growth rate of 7.2%. Yes, the little bank increased its payout throughout the last two recessions — a better dividend-growth track record than the big banks.

It's not hard to see why. Canadian Western Bank maintains a very conservative payout ratio in the 30% range. Combined with earnings growth over the long run, the bank has been able to keep growing its dividend.

Outlook

[Canadian Western Bank](#) expects medium-term earnings-per-share growth and return of equity to be 7-12% per year and 12-15%, respectively. However, the company may fall short of those targets this year. That's another reason why the stock is cheaper than usual.

The bank will be reporting its fiscal third-quarter results next Thursday on August 29. Should the results be better than expected, the stock can trade much higher!

However, investors are better off with a longer-term investment horizon, as the bank has a much higher normal multiple that can be achieved in the long run for gains of more than 40%!

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