Why the Oil Price War Won't Last: 1 Dividend Stock to Buy for Massive Gains

Description

It's probably too risky for investors to buy energy stocks currently, particularly, oil and gas producers.

Thankfully, there's another way to capitalize on this oil price war opportunity for substantial gains with lower risk by buying this one top dividend stock.

First, here's a little background.

Oil is in turmoil

I don't know what the market is more worried about these days — viruses spreading over the globe and lowering demand for oil or the oil price war waged by Saudi Arabia in retaliation of Russia not co-operating with OPEC with production cuts.

So, there's a lower demand and oversupply for the commodity. That's just great for the Canadian economy — not!

The Canadian stock market has corrected 15% from its high.

After the U.S. and Canadian central banks cut the interest rate by 0.50%, the Bank of England followed suit with a similar rate cut. The reason is none other than the uncertain but material negative impact on the economy from the waves of COVID-19.

Why the oil price war won't last

The oil price war does nobody any good. Instead, it will make lots of oil and gas producers bankrupt if the WTI price were to stay in the US$30s range for an extended time. Simultaneously, the producers that are actually profitable right now will be doing so at much thinner margins than before.

Therefore, I believe the oil price war will go away.

Top dividend stock to buy at basement price!

Canadian Western Bank (TSX:CWB) stock is often ignored by investors, because it's not one of the Big Six Canadian banks. Because its stock price highly correlates with the direction oil prices go, investors can make greater returns by trading it strategically.

The bank has greatly de-risked its loans portfolio, reducing its loans in Alberta from 50% in late 2009 to 32% today. In fiscal Q1, its loan growth in Alberta was 6% year over year.

Optimistically, it's also making considerable effort to grow its loans in British Columbia and Ontario. Currently, British Columbia makes up 33% of its loans portfolio, while Ontario and eastern Canada make up 27%.

Investors should note that Canadian Western Bank has secured lending practices and disciplined underwriting, which is demonstrated by a history of low percentages of credit losses to total loans. In the past 39 quarters, there was only one quarter where it had write-offs that exceeded gross impaired loans; in 2016, it had elevated oil and gas losses.

The bank also tends to have a lower provision for credit losses (PCL) ratio than its Big Six bank peers. For example, its PCL ratio in fiscal Q1 was 0.18% compared to the Big Six bank average of 0.37%.

Because of its large exposure to Alberta, Canadian Western Bank has taken precautions, including maintaining a low payout ratio, to protect its dividend. Its dividend-growth streak is 28 consecutive years — triple that of the Big Six! Its five-year dividend-growth rate is 6.6%.

Also due to its substantial exposure to Alberta, the stock has fallen accordingly by a third since late 2019. At $23.55 per share at writing, the dividend stock offers a yield of 4.9%. Its payout ratio is about 36%, which is much lower than the big bank's range of about 45-50%.

The Foolish bottom line

At the current quotation, valuation expansion alone can lead to upside of 68-100% over the next few years. Throw in a dividend yield of 4.9% and earnings-growth resumption, and you have a winner!

At the end of the day, though, investors need to be able to hold on to the above-average volatile stock to benefit from the eventual reversion to the mean. Are you up for the challenge?

If CWB stock just isn't for you, consider the safest Canadian bank that's also on sale.

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