This Canadian Bank Stock Is a Better Buy Than Air Canada (TSX:AC)

Description

It's going to be a tough year for **Air Canada** (TSX:AC)(TSX:AC.B). There's a Canadian bank stock that's a much better buy as a turnaround investment.

Invested in Air Canada stock? Not the end of the world but…

Air Canada stock is set up for huge losses this year. However, its profitability and the stock should recover in time. Investors just need to have a long enough investment horizon.

If you're okay with your money being tied up for three to five years, it should be more than enough time for the stock to recover.

Why this Canadian bank stock is better

Canadian Western Bank (TSX:CWB) is a far better turnaround investment than Air Canada for several key reasons. Its earnings are much more stable, pays a safe dividend, and trades at a cheaper valuation.

Stable earnings

It's going to be a tough year for banks, including Canadian Western. However, the Canadian bank's profitability is much more stable than Air Canada's. Therefore, it's also a much safer investment.

As a smaller bank in Canada, Canadian Western Bank has been more prudent in its operations.

For example, it maintains a lower efficiency ratio than the Big Six Canadian banks. The efficiency ratio is its non-interest expense as a percentage of total revenue. Its recent efficiency ratio was 45.5% versus the Big Six's average of 53.1%.

Additionally, Canadian Western Bank also maintains strong credit quality with low write-offs. Its recent provision for credit losses as a percentage of average loans was 0.18% versus the Big Six's average of 0.37%. This demonstrates Canadian Western's secured lending practices and disciplined underwriting.

Dividend income

Air Canada stock doesn't pay a dividend. In stark contrast, Canadian Western Bank offers a high dividend yield of 6.6%. Its dividend is sustained with a low payout ratio of about 36%. This compares to the industry average payout ratio of about 50%.

Additionally, the bank has a much longer dividend-growth streak than its bigger peers. It has increased its dividend for 28 consecutive years versus its larger peers' of about 10 years. Its five-year dividend growth rate is 6.6%.

Valuation

At about $17.50 per share at writing, Canadian Western Bank trades at a dirt-cheap valuation of about 5.5 times earnings.

To put it in perspective, this is a valuation that's already about 20% cheaper than its cheapest levels in the last recession about 10 years ago.

Its long-term normal valuation of close to 12.3 times represents the potential to triple one's investment over the next three to five years.

Risks

Canadian Western Bank's operations are managed with great prudence. Its payout ratio also offers a greater margin of safety compared to its bigger peers. However, there's a reason behind its prudent practice. It has a bigger percentage of loans in Alberta — to be exact — 32% of its total loans.

Although just 1% of its loans have direct exposure to the oil and gas industry, the health of the Albertan economy is still closely tied to the health of the volatile energy sector, which is facing huge challenges right now.

The Foolish bottom line

Both stocks of Air Canada and Canadian Western Bank can triple your money over the next few years on the backdrop of economic recovery after the global coronavirus crisis.

However, Canadian Western Bank would do so with much lower risk given that it offers periodic returns with its safe dividend yield of 6.6%. Receiving regular dividends will also help psychologically to hold the stock.

Here are more dirt-cheap stocks for a trade on an economic recovery over the next few years.

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