A Canadian Bank That's Still Down 50% From All-Time Highs!

Description

None of the Canadian banks were spared from the carnage, as the coronavirus struck amid a rare, but nasty credit cycle downturn. Of all the big banks, **Canadian Western Bank** (TSX:CWB) took the biggest hit to the chin, collapsing 54% from peak to trough on the coronavirus before posting a partial post-crash recovery alongside the broader market.

The hardest-hit Canadian bank

Today, Canadian Western Bank stock is still down 48% from its 2018 high as worries over the Edmonton-based bank's oil and gas (O&G) loans weigh after the coronavirus-induced demand shock that sent oil prices plunging briefly into the negatives before bouncing back to the teens.

Canadian Western Bank, as you may have guessed from the name, primarily serves the western Canadian provinces, with a heavy weighting in the ailing province of Alberta. The bank has led the latest downward charge, but there are reasons to believe that the damage that's been done is overblown beyond proportion, even given Canadian Western Bank's more vulnerable position relative to its peers in the Big Six.

It's not a Big Six bank, but that doesn't mean it's not of high quality

Although Canadian Western Bank may not be the bluest of blue-chip like its bigger brothers, it's still a high-quality financial institution that's not just going to roll over in the face of a crisis. While Canadian Western doesn't have the best capital adequacy ratio, it's still remarkably well-capitalized with a CET1 ratio of 9.1% in 2019, which is still well above regulatory requirements.

Even as provision for credit losses (PCLs) mount from the pressures weighing on the Albertan oilpatch, the dividend (currently yielding 5.55%) is safe enough to make it through the worst of thispandemic.

Of all the Canadian banks, Canadian Western Bank got hit the hardest on the coronavirus. Although a heavy exposure to O&G loans is less than desirable after the unprecedented rout, many investors are underestimating the diversity of the bank's loan book. Yes, it's going to take a much bigger hit than some of its Big Six peers, but not detrimentally so.

Like its peers, Canadian Western Bank is dealt the same tough hand, with lower commercial loan growth at lower margins on the horizon. The headwinds are going to weigh and Canadian Western Bank's O&G exposure is doing it no favours during these tough times.

And while it may seem reasonable to shun the stock because of its increased vulnerability, value-conscious investors may find it worthwhile to bet on a name that I believe is priced at a considerable discount to its intrinsic value.

Foolish takeaway

Although Canadian Western Bank deserved to get hit harder than its Big Six peers, one has to draw the line somewhere. The damage has been overdone and the battered bank has the most upside in a market recovery that should come alongside a rebound in oil prices back to pre-pandemic levels.

At the time of writing, Canadian Western Bank trades at 0.7 times book, a ridiculous discount for one of the most underrated dividend stocks on the **TSX Index** today. If you seek deep value, look beyond the Big Six to Canadian Western Bank, which looks to offer the best bang for your buck following the coronavirus crash.

Stay hungry. Stay Foolish.

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