2 Regional Canadian Banks Far Cheaper Than the Big Six

Description

Not to knock the Big Six Canadian banks, but the underrated regional banks such as **Canadian Western Bank** (TSX:CWB) and **Laurentian Bank** (TSX:LB) are now trading at very steep discounts to book value after the COVID-19 crash.

The Big Six are praised for their impressive capital ratios and stellar financial flexibility, which is a heck of a lot better than prior to the Financial Crisis. But it's worth noting that Canada's regional banks also are on relatively sound footing. I think their capital ratios are more than worthy of your investment dollars, even at these unprecedented depths.

The regional banks do lack the geographical diversification of their bigger peers. But I'd argue that a steep discount on a regional bank stock may more than make up for it. If the price is right, every stock, even those that are less 'wonderful,' can be attractive buys.

Consider the following regional Canadian banks if you're looking for deep value beyond the Big Six.

Canadian Western Bank

As you may have guessed from the name, Canadian Western Bank is primarily focused on the Western Canadian market. With considerable exposure to Alberta, CWB has been under pressure ever since oil prices plunged back in 2014.

After the coronavirus-induced oil demand shock, oil prices fell to new lows (briefly falling into the negatives), and CWB stock imploded. It fared far worse than its Big Six peers during the February-March crash. The stock lost over 52% of its value before posting a partial recovery to $23 and change.

The bank has its fair share of oil and gas (O&G) loans, and because of this, the stock has traded at a widening discount to other banks. But of late, I think the valuation gap has widened too far. I think value hunters can bag a huge bargain with the heavily out-of-favour regional stock, as oil gradually looks to normalize.

CWB stock sports a bountiful 5% yield and trades at a mere 0.8 times book.

Laurentian Bank

If you seek an even larger discount, Quebec-focused regional bank Laurentian may be the horse to bet on. Its shares are currently off 50% from all-time highs. The bank stock trades at 0.6 times book, but does come with a tonne of baggage.

In my last piece on Laurentian, I warned investors against the added risks. The capital ratio, while certainly not abysmal, leaves a lot to be desired relative to its peers. Just over a year ago, Laurentian found had a bit of trouble with its mortgage book and the stock has struggled to break through the $46 ceiling of resistance ever since.

"The bank found itself in a 'mini mortgage crisis' a while back, and until now, management has failed to show that it's able to keep its expenses in check." I wrote in that earlier piece, urging investors to take a rain check on the name. "As the bank moves ahead with its business model and strategy shake-up, there's also the potential for other issues to arise should management fail to execute amidst the dire macro environment."

Which is the better regional Canadian bank to buy?

To this day, there's still too much baggage, and far too much uncertainty to really tell if Laurentian Bank is actually 'undervalued,' even at today's unprecedented depths. As such, I'd pass on the name and its 8.6% yield in favour of Canadian Western Bank, which I believe has more upside.

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Author
joefrenette