



A Tale of 2 Banks: Which Is the Better Buy?

Description

If there is a single industry that's loved by Canadians, it would be the banking industry. While Canadians generally like to invest in the Big Five Banks, there are other banks outside that group that are worth considering. **Canadian Western Bank** ([TSX:CWB](#)) and **National Bank of Canada** ([TSX:NA](#)) are both [strong companies](#), so which one should you consider adding to your portfolio?

A deep dive on the two companies

The **S&P/TSX 60 Index** follows 60 large companies listed on the **Toronto Stock Exchange** that are leaders in important industries. Of these two companies, only National Bank of Canada is included in the index. This suggests that it would be the larger company and have a wider reach than Canadian Western Bank.

This is supported by the reported total assets of each company: National Bank of Canada reported \$281 billion in assets in its 2019 annual report, while Canadian Western Bank reported \$31.4 billion in assets that the same year.

What is interesting, however, is the reach both banks have: 33% of Canadian Western Bank clients (by revenue) reside in British Columbia, 32% in Alberta, 8% in either Saskatchewan or Manitoba, and 27% in Ontario or other Eastern provinces.

The bank has a wide reach within the country, which is very different than National Bank's reach. Canadian Western Bank has stated that it plans on prioritizing its growth in Ontario in the near future.

In comparison, 55% of National Bank of Canada clients are found in Quebec and 26% are in the other Canadian provinces. So, you can see that this company has a much more concentrated business toward a single province, which may raise some red flags.

However, unlike Canadian Western Bank, it has [reach outside of the country](#), which accounts for 19% of its revenue. So, while National Bank has less of a diverse reach within the country, it has tried to expand outside of it, which is a big advantage over Canadian Western Bank.

One area in which Canadian Western Bank sets itself apart from National Bank is in its dividends. While both companies are listed as Canadian Dividend Aristocrats, Canadian Western Bank currently has the fourth-longest dividend growth streak (28 years). This is almost three times longer than the 10 years of increasing dividend distributions by National Bank.

Canadian Western Bank also has a lower dividend payout ratio than National Bank (37.46% vs 46.26%). This signals to me that not only has Canadian Western Bank been the better performing bank in terms of a reliable dividend, historically, but it is also in a better position to continue increasing its dividend moving forward.

Foolish takeaway

Both companies shine in different ways. Canadian Western Bank has provided better dividend distributions and appears to be on track to outperform National Bank in that regard moving forward. However, as the larger bank and with its exposure outside the country, National Bank of Canada appears to be in a much better position to grow as a company.

So which bank is the better buy? That depends on whether you want to add these companies from a dividend point of view or for growth. Both have their merits and can fit into any portfolio depending on strategy.

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TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:NA (National Bank of Canada)

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