Passive Income Investors: Do Regional Banks Hold Greater Value?

Description

The regional banks may provide less geographical diversification versus their bigger brothers in the Big Five. Still, the discount to the peer group may be worthwhile for deep-value investors seeking excess upside in a Canadian banking rebound.

When the economy is in tough shape, and just a few firms within affected industries have difficulty meeting debt obligations, the big banks and their shareholders stand to be left holding the bag.

The damage brought forth by the coronavirus crisis may have been concentrated in specific industries, most notably retail, travel, and energy, to name a few. Still, the weakness in supposedly isolated areas of the economy spread to the banks and their loan books. As a result, even the well-capitalized bank stocks melted down back in February and March, as the broader financial sector took on a brunt of the damage brought forth by the COVID impact.

In October, a handful of analysts turned their backs to one of the most premier Canadian banks in **TD Bank**, citing headwinds that were already baked into the share price. When the curtain was pulled on safe and effective COVID vaccines, it was off to the races for TD Bank and its peers in the Canadian banking scene.

Looking for deeper value beyond Canada's Big Five behemoths

Suddenly, the battered bank stocks were worth banking on again, as bank investors looked to the light at the end of the tunnel. With the vaccine-driven rally driving the shares of most-affected Canadian banks back to their pre-pandemic highs, the opportunity to score a swollen yield alongside a shot at outsized capital gains has come and gone.

But for regional banks like **Canadian Western Bank** (TSX:CWB), which is still down considerably (around 30%) from its pre-pandemic high, I still think there's a chance to land outsized gains, as the banks continue climbing back in the new year.

Canadian Western Bank has a heavy focus on Alberta, British Columbia, and, most recently, Ontario. The former province has experienced "amplified" damage due to the crisis amid plunging oil prices.

As oil demand continues staging a recovery, the weight on the shoulders of various players in the oil and gas (O&G) space will stand to lessen further. While the weight likely won't be relieved entirely, improving prospects for O&G players bodes well for Alberta and thus Canadian Western Bank's loan book.

Could a regional bank be a dividend all-star for your TFSA?

"This $2.69 billion bank has raised its dividends for 28 consecutive years," wrote fellow Fool Chris Liew, who views Canadian Western Bank as a "dividend all-star" for the TFSA of Canadian investors.

"Despite the strong headwinds in the banking sector, CWB proved resilient and survived the battering. The stock price fell to as low as $15.46 on March 23, 2020. However, it has rallied since and returned to the pre-corona level. As of December 2, 2020, CWB trades at $30.42, a meteoric rise of 97% from its COVID-low."

I think Chris is right on the money and would encourage investors to continue buying shares of CWB while they're still discounted to many of its bigger brothers. While the bank may be regional, it's not as geographically undiversified as you may think, given it's making a big splash in the robust province of Ontario.

When combined with improving prospects on the west coast, I'd say CWB ought to be worth a heck of a lot more than 0.9 times book value.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)

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