The Cheapest Canadian Bank Stock You Can Buy Now

Description

Canadian bank stocks are famous for their financial stability. Some have paid dividends for more than a century! In recessions, they have maintained their dividend payouts, which makes them solid picks for safe dividend income. If it weren't for the regulator being cautious about the economic health of the country and making the banks freeze their dividends during the pandemic, they could very well have raised their payouts.

The Canadian bank stocks fell in the market crash in 2020 during the pandemic. And they have recovered. Many have more than recovered and surpassed their heights set prior to the pandemic.

Going through the Big Six Canadian bank stocks, there's not much value to be found, especially when compared to the pandemic levels. They're not expensive, but they're not cheap either. If investors must identify which may be cheaper compared to others, it might look something like the table that I made below with the recent bank stock prices, estimated valuations, and dividend yields displayed.

Bank	Recent stock price	Estimated price-to-earnings ratio (P/E)	Recent dividend yields
Royal Bank of Canada	$136.45	12.3 — fairly valued	3.5%
Toronto-Dominion Bank	$94.59	11.7 — fairly valued	3.8%
Bank of Nova Scotia	$85.75	10.5 — slightly undervalued	4.7%
Bank of Montreal	$143.11	10.8 — slightly undervalued	3.7%
Canadian Imperial Bank of Commerce	$145.08	9.8 — undervalued	4.4%
National Bank of Canada	$93.73	10.1 — slightly undervalued	3.7%

Among the Big Six Canadian banks, CIBC is the cheapest. However, it isn't the cheapest Canadian bank stock you can buy. **Canadian Western Bank** (TSX:CWB) is.

The cheapest Canadian bank stock

CIBC trades at a discount of about 18% at writing versus Canadian Western Bank's discount of approximately 24%. In the past, the latter's earnings and stock price have been more volatile than its bigger peers due to its smaller size and greater exposure to resource-rich Alberta.

Over the years, CWB has reduced its exposure to that geography by investing in other provinces like Ontario. Therefore, its earnings should be more stable going forward, as it will be less tied to oscillating commodity prices that are key to the health of the Albertan economy. Currently, it has 33%, 31%, and 24% of its loans in British Columbia, Alberta, and Ontario, respectively.

Dividend safety

Canadian Western Bank has increased its dividend for 30 consecutive years. Its five-year dividend-growth rate is approximately 5%. Because its payout ratio is estimated to be about 31% this year, it continues to pay out a safe dividend and should have no problem raising its payout.

What analysts think

Last month, Paul Harris gave the following comments on Canadian Western Bank.

> "It was a tough time for the stock when oil was down. Now, it's in great shape. Its yield is 3.3%, not as high as the big banks. But at nine times earnings, it trades at below book value. It's worth looking at. The world is looking a lot better for the banking industry. It will always trade at a lower multiple, as it's regional."
> *Paul Harris, partner and portfolio manager at Harris Douglas Asset Management*

At $33.56 per share at writing, Canadian Western Bank trades at about 8.8 times earnings and yields 3.6%. Technically, CWB stock is oversold. The dividend stock already looks decently attractive today, but the stock price could experience further downside from volatility in energy prices. If it gets pressured, the next support level will be at the $30-32 range.

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Date
2025/08/25
Date Created
2022/04/17
Author
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