Absolute Buys: 2 Bank Stocks Aside From the Big Five

Description

The World Bank Group warns of an extended financial hardship until year-end 2024. Based on the group's estimates, energy and non-energy prices could rise 50% and 20%, respectively, this year before they ease or moderate in the next two years. It adds that a stagflation will hit economies very soon.

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Meanwhile, the commodity shock reflects in the stock market. The **S&P/TSX Composite Index** displays erratic behaviour and has been trending downward lately. Dividend investors fear that a prolonged period of instability could greatly impact their income streams.

Fortunately, Canadians have a bedrock of stability in the banking sector. **Royal Bank of Canada**, **Toronto-Dominion Bank**, **Bank of Nova Scotia**, **Bank of Montreal**, and **Canadian Imperial Bank of Commerce** form the Big Five. While **National Bank of Canada** (TSX:NA) and **Canadian Western Bank** (TSX:CWB) are outside the circle, they're also buys for income seekers.

Solid revenue growth

National Bank had a high level of excess capital ($1.1 billion) at the close of Q2 2021 like its larger industry peers. The country's sixth-largest bank also delivered outstanding results in fiscal 2021. In the year ended October 31, 2021, net income rose 53% to $3.17 billion versus fiscal 2020.

Fast forward to Q1 fiscal 2022, and we see the $30.35 billion bank maintaining its excellent performance. In the quarter ended January 31, 2022, net income climbed 22% to $932 million compared to Q1 fiscal 2021. Its president and CEO Laurent Ferreira said, "Solid revenue growth helped the Bank achieve a high return on equity in the first quarter."

Management hasn't announced a major expansion plan yet, although it's been actively supporting growth plans of several businesses. The latest is a 30% ownership stake of the National Bank SME Growth Fund in Unimax Ltd. As a strategic investor, National Bank will help fuel the nationwide growth of Canada's leading tire wholesaler, distributor, and franchisor.

National Bank's total return in the last three years is 58.08% (16.46% CAGR). The current share price is $89.73, while the dividend yield is 3.88%. Expect sustainable income streams from the bank stock owing to its very low 31.71% payout ratio.

Growing force in core markets

Canadian Western Bank is a cheaper option ($32.38 per share) and an ideal back-up to any big bank stock. The $2.92 billion regional bank is the alternative, if not the go-to lender of small- and medium-sized business owners. Expansion in Ontario is ongoing, as the bank leverages its expanding products, capabilities, and brand presence.

In Q1 fiscal 2022, the top and bottom lines grew 9% and 11% versus the same period in fiscal 2021. According to CWB president and CEO Chris Fowler, lending volume remained strong during the quarter. Management expects the strong lending pipelines to deliver double-digit loan growth for this fiscal year.

Fowler added that the team's winning strategy focuses on business owners. It should help drive accelerated business growth. Stephen Murphy, CWB's executive vice president for Banking, said, "Like many of our clients, CWB is growing." If you invest today, you can partake of the decent 3.70% dividend.

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Bottom line

National Bank and Canadian Western aren't mediocre stocks. Besides their great values, both banks can endure the current market volatility.

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