Investing in 2 Regional Banks Just Got a Lot More Lucrative

Description

Investors would have understood if Canadian banks postponed dividend increases at the close of fiscal 2022. However, the Big Six, except the **Bank of Nova Scotia**, increased their dividends despite a possible recession next year. But not to be outdone are two regional banks that followed the lead of their larger industry peers.

Investing in the **Canadian Western Bank** (TSX:CWB) and **Laurentian Bank** (TSX:LB) became much more lucrative because of higher dividends. If you invest today, the yields are 5.28% and 5.57%, respectively. The dividend payments should be safe and sustainable, given the less than 40% payout ratios.

Solid growth

CWB President and CEO Chris Fowler said the bank's performance in fiscal 2022 reflected solid growth and continued investment in strategically targeted full-service growth initiatives in a volatile economic environment. He cites the 14% annual loan growth in strategically targeted general commercial loans (11% in Ontario). Branch-raised deposits increased 8% year over year to $1.6 billion.

Total revenue rose 6% to $1 billion versus fiscal 2021, although net income declined by 6% year over year to $336.9 million. Despite lower earnings, the board of directors approved a dividend increase (3% and 7% higher from Q3 fiscal 2022 and a year ago, respectively).

Fowler adds, “Our strategic execution has delivered enhancements to our digital capabilities, increased our physical presence in key markets, and further improved our client offering to provide a foundation to accelerate full-service client growth.” Management will focus on delivering strong core operating performance in fiscal 2023 and hopes to achieve CWB's financial performance targets for fiscal 2024.

For fiscal 2023, the $2.2 billion bank will leverage its enhanced capabilities and increased physical presence to deliver strong full-service client growth in strategically targeted segments and within its risk appetite. CWB targets high single-digit annual percentage loan growth and double-digit annual percentage growth in branch-raised deposits.

However, management said the rapidly rising interest rate and deteriorating economic outlook might drive CWB to increase its provision for credit losses (PCL) next year. CWB trades at $24.26 per share and currently underperforms (-30.11% year to date).

Incredible turnaround

Laurentian Bank's total revenue of $1 billion in fiscal 2022 was 3% higher than in fiscal 2021. Notably, net income rose 297% year over year to $226.6 million. The profit in Q4 fiscal 2022 reached $55.6 million compared to a $102.9 million net loss in Q4 fiscal 2023.

Its President and CEO, Rania Llewellyn, said, "I am extremely pleased that we exceeded all of our financial targets in this first year of our three-year strategic plan. Our solid results speak to the strength of our underlying business, our ongoing focus on cost discipline, our prudent approach to credit, and our continued efforts in executing against our plan."

Apart from the 51% drop in expenses to $174.1 million versus fiscal 2021, LB's PCL or loan loss provision declined 29% year over year to $17.8 million. As of this writing, the bank is down 15% year to date. Market analysts' 12-month high price target is $55, or a potential 67% climb from its current share price of $32.90.

Financial stability

CWB and LB are keeping pace with the Big Six banks in rewarding investors with higher dividends. Moreover, both regional banks have the financial strength to endure an economic slowdown or bear market in 2023.

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