



## Canadian Western Bank Remains on Track for Double-Digit Loan Growth

### Description

An Alberta-based bank may not seem the obvious choice for long-term investors seeking a solid value proposition. However, **Canadian Western Bank** ([TSX:CWB](#)) is “overcoming the oil overhang,” according to respected Barclays analyst John Aiken.

“While the economic impact from low oil prices to the Alberta region is undeniable, with CWB’s valuation trading at a discount to historical averages, and below its large cap peers (on both forward P/E and price-to-book basis), in our view, Western continues to offer interesting value proposition for longer-term investors,” Aiken said in a note to clients. “Further, we believe the depressed valuations reflect a very dire outlook for CWB’s loan growth and credit quality, which ultimately, may not fully materialize.”

CWB remains on track to hit double-digit loan growth in 2015, Aiken says, and could do the same in 2016, despite a weak crude oil environment that most industry watchers believe is unlikely to turn around anytime soon.

So, what’s CWB’s secret? Firstly, the loan portfolio actually contains very little exposure to the energy sector, and the bank has brought in stronger credit practices since the financial crisis.

“CWB’s direct exposure to the energy industry is small relative to its overall portfolio at approximately 6% of total loans outstanding,” the company said in its latest quarterly report. “This includes direct loans to energy producers of approximately 2%, and direct lending to service-related companies within the sector representing an additional 4% of total loans.”

Also, Barclays anticipates loss ratios will remain within manageable levels and below the peak levels experienced in 2010. “A refresh of our earnings sensitivity and correlation analysis suggests that the relationships are still not as significant as the markets may believe,” Barclays said.

Still, it's not going to be an easy year for any of Alberta's financial institutions. ATB Financial, Alberta's provincially owned financial institution, released its economic forecast for the province this week. It predicts that the economy will be in recession this year before recovering to growth of 1.4% in 2016. ATB says weak oil prices are the "single reason" for the province's current economic challenges.

CWB's share price correlation to crude oil continues to be the strongest driver of near-term valuation, Aiken noted, despite the bank's relatively low commitment to the energy sector. "That said, with a worst case scenario almost fully priced in, for longer-term investors, we believe CWB represents a true value proposition."

Even though CWB's shares are down nearly 30% year-to-date, the bank experienced a modest stock increase when it released its quarterly earnings last month, producing a profit of \$51 million, down slightly from \$52 million in the same period last year.

"Results look worse than they really are, given the hit from an unusually large securities gains number," Meny Grauman, a Cormark Securities analyst, said. "Although one would be hard-pressed to see signs of Western Canadian economic stress in these results, management clearly acknowledges that there are tougher times likely ahead."

Still, CWB is well-positioned to handle continuing weak oil prices, and may actually perform better than its larger banking counterparts in the years ahead.

## CATEGORY

1. Bank Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)

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