This Canadian Dividend Aristocrat Has 46% Upside!

Description

Last week, I introduced you to the three most undervalued Canadian Dividend Aristocrats. While analyzing the list, one company stood out for me: **Equitable Group Inc.** (TSX:EQB). The company is absurdly cheap.

The company operates in the challenging alternative mortgage industry. Yes, the nature of its business is inherently risky, but the market is applying too large of a discount to its shares. Equitable Group's price-to-earnings ratio of 6.3 is the cheapest of its peers. Should it trade in line with its historical average of 8.8 times earnings, investors could be looking at 46% upside!

Equitable Group should not be the cheapest of the bunch. Why? The company has been an industry leader. Without skipping a beat, it has consistently raised earnings year after year. Its five-year earnings-per-share compound annual growth rate (CAGR) is 13%! The best part: earnings are expected to continue growing over the next few years.

What's more, Equitable Group has a seven-year dividend-growth streak and is among Canada's best dividend-growth companies. It has raised dividends in four straight quarters — a streak that is unmatched among Canadian Dividend Aristocrats.

What more do investors want? Its performance has been stellar!

Rules for defensive stocks

Benjamin Graham, the father of value investing, put forward a set of rules for the defensive investors to follow. According to Graham, the defensive investor is one who has little time to monitor their portfolio. They require a portfolio with minimal effort, research, and monitoring. Does Equitable Group pass the test?

Sales greater than $500 million

Pass. In 2017, Equitable Group generated close to $700 million in interest income.

Strong financial condition

Pass. As per Graham, current assets should be at least twice current liabilities. Equitable Group is very close with a ratio of 1.8. Likewise, its long-term debt should not exceed its current assets. No problems here; its ratio is 0.4.

Earnings stability: 10 years of positive earnings

Pass. Not only has Equitable Group posted positive earnings, but it has grown earnings every year!

Uninterrupted dividend payments for at least the past 20 years

Fail. Equitable Group only started paying a dividend in 2004, 14 years ago.

Earnings CAGR of 3% over the past 10 years

Pass. How does 23% sound?

P/E lower than 15

Pass. It is currently trading at a P/E of 6.3

P/B lower than 1.4

Pass. It is currently trading at 0.8 times book value.

Graham would approve!

Equitable Group meets six of the seven criteria for defensive investors. Ironically, after touting it as of the best dividend-growth stocks, the only one it failed was the dividend rule. Keep in mind, however, that Equitable Group only started paying a dividend 14 years ago. It has been uninterrupted since.

With this in mind, Equitable Group is the perfect stock for the defensive investor.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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