



Buying Opportunity: Canada's Fastest-Growing Bank Stock Just Plunged 25%

Description

Most Canadian investors focus on our five largest banks, and for good reason. These dominant financial institutions effectively control the banking market in Canada with the rest pretty much fighting for scraps.

But what most investors don't realize is some of these scraps can be quite lucrative. Perhaps the banks just don't want that business. Or perhaps it's just too small for them to worry about. Or perhaps these large banks just don't have the expertise to do well in these niche markets, so they just let the opportunity pass them by. After all, a big part of banking is risk management.

One of Canada's most successful stocks is a bank that operates in a niche market — a part of the mortgage business most consider to be extremely risky. I disagree. Let's take a closer look at this suddenly cheap stock and why it should be in your portfolio.

The skinny

Equitable Group ([TSX:EQB](#)) is involved in subprime lending. You might remember the term from the 2008-09 financial crisis when faulty mortgages brought the entire world economy to its knees — no wonder few investors like the stock today.

Most folks discount the stock without doing more than five seconds of due diligence on the name, which is too bad. If they'd dig a little further, it would reveal an interesting truth. Equitable has quietly become one of Canada's best growth stocks.

Several factors are driving alternative mortgage growth. Canada is accepting a record number of immigrants every year — folks who may not have a traditional credit history.

Strong real estate prices encourage homeowners to borrow against their equity, driving growth from every lender, including Equitable. Its commercial lending service continues to post nice results. The company has even expanded into the [reverse mortgage](#) market.

The company just released its 2019 earnings, and the numbers were strong. Both commercial and retail loans outstanding rose by 13% for the year.

The company's return on equity was 15.9% compared to 14.7% in 2018. Adjusted earnings shot 22% higher, coming in at \$12.29 per share. The board of directors also treated investors to a 22% dividend increase. Oh, and loan losses remained absurdly low, checking in at a mere 0.07%.

And yet, the stock fell on the news.

Why?

The company released 2020 guidance which was a little below expectations. Earnings are expected to grow between 4% and 8% this year because the company plans to make significant investments in new technology, as well as moving its head office to Toronto. Analysts ratcheted down their expectations for the year and are now predicting the company will earn \$12.72 per share in 2020.

The opportunity

Equitable Bank plans to grow the bottom line by 12-15% annually, which would make it the fastest-growing Canadian bank. Despite this excellent growth potential, shares trade at a dirt-cheap valuation.

The stock is just under \$90 per share today, putting it at just over seven times trailing earnings, which would be cheap for a company without much growth. It's ridiculously cheap for an organization that plans to post nice growth numbers.

Equitable also trades at just a small premium to book value. Meanwhile, most of Canada's other banks trade at between 1.5 and 2 times book value. The company deserves to trade at such a valuation, too. It puts up financial results that are comparable to its peers.

And thanks to the recent sell-off, Equitable shares are on sale again. The stock is off 25% from its peak set back in early November. Remember, the last time Equitable shares sold off so much was during the first few months of 2018. Shares have almost doubled since.

The bottom line

Equitable Group shares are among the cheapest on the entire **TSX Composite Index** despite posting excellent growth and still having oodles of potential.

I couldn't let this opportunity pass me by and therefore added shares to [my portfolio](#) last week. I encourage other investors to do the same.

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