



Value Investors: You Won't Believe the Bargain Offered by This Cheap Bank Stock

Description

The market is full of cheap stocks today, with one sector seemingly being hurt more than the others. Canada's banking industry has gotten battered on worries a broad economic slowdown has done years of damage to our top banks.

I couldn't disagree more. Yes, I'm the first to admit the short term doesn't look great for Canada's top banks. But these stocks have easily priced this new world into their share prices. In other words, the TSX is filled with cheap bank stocks. It's a great time to add to these fantastic companies.

There's one cheap bank stock that is so inexpensive it hurts. Let's take a closer look at **Equitable Group** ([TSX:EQB](#)) — a stock so ridiculously undervalued you'll barely believe it.

The skinny

Equitable Group is one of Canada's leading so-called subprime lenders with more than \$30 billion worth of loans on its balance sheet. It specializes in certain niches the larger Canadian banks don't feel comfortable operating in, including loans for real estate investors, mortgages for recent immigrants, and products for customers with large down payments and a history of bruised credit.

You'd think this type of business model would lead to larger than normal loan losses, but Equitable does a solid job keeping that number down. The company credits its underwriting process as well as solid performance from the real estate market in Canada's largest cities.

Equitable is constantly looking to expand from its core business, and it's exploring a number of interesting growth avenues. It has a fairly new equipment leasing business. The company is quietly becoming a major player in the [reverse mortgage](#) market. And its retail banking business — which was mostly started as a low-cost way to fund mortgages — has grown into one of Canada's most popular branchless banking brands.

The investment thesis

You've probably already figured out Equitable Bank is one of Canada's best value stocks. But you won't know just how inexpensive this cheap bank stock is today.

Let's start with a trailing price-to-earnings ratio, a metric I will admit is a little flawed. After all, we don't know what the future has in store. I believe the company will be back to maximum profitability faster than most think, as the economy will recover quickly from this slowdown, but I can see why others might disagree.

Equitable Group shares currently trade hands at under \$60 each. The company earned \$12.09 per share last year. That's right; this cheap bank stock trades hands at less than five times trailing earnings.

The company is also cheap on a price-to-book value basis, with the stock currently trading hands at approximately 70% of book value.

Remember, Equitable Group has terrific growth potential compared to most of its peers. The company has a medium-term earnings per share growth target of 12-15% per year. Even if it comes short of that target, the company's current rock-bottom valuation combined with its still above-average growth potential combine to make it perhaps Canada's cheapest bank stock.

In fact, the stock was trading at \$120 per share before this market crash came and ruined everything. I think the stock could easily return to that lofty level in the next two to three years — a move that would represent serious upside from here.

Get paid to wait

And finally, I'd like to mention Equitable Bank's dividend — a payout that is often overlooked because Canada's larger banks offer much better current yields.

But investors shouldn't discount Equitable's 2.5% yield. The payout has been hiked for 21 consecutive years. And the dividend-payout ratio is currently around 15% of trailing earnings. Some investors are concerned Canada's [largest banks will cut their payouts](#). They don't have to worry about that with Equitable. That dividend is rock solid.

The bottom line on this cheap bank stock

Equitable Group's valuation simply doesn't make any sense to me. Yes, the company will suffer in the short term, as many struggling borrowers get relief from their mortgages. But over the long term, this is a company set up for massive success. And for a limited time, investors get the chance to invest in that at a bargain valuation.

Don't let this opportunity pass you by. Put this cheap bank stock in your portfolio today.

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Author

nelsonpsmith

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