



Value Investors: This TSX Real Estate Lender Is Trading at an Attractive Valuation

Description

When an event as massive as a global lockdown occurs, it is natural for investors to seek safe havens. Canadians need to identify stocks trading on the TSX that have stood the test of time and companies that are unlikely to stumble even during a pandemic.

In the rush to reach these safe havens, there are opportunities that get overlooked simply because the company is not as established as the other players in its industry. Never mind that it is the fastest-growing player in its segment. In fact, it could backfire, as investors think it might fall just as quickly as it rose.

That is what has happened to Canadian TSX stock **Equitable Group** ([TSX:EQB](#)), as its share price crumbled from a high of \$120 in February 2020. The stock is trading on the TSX at \$56. Equitable Group operates in the real estate space, where it [gives loans to](#) both residential and commercial players.

An observer could be forgiven for thinking that the company is in a lot of trouble. However, that doesn't seem to be the case here. EQB just reported [its numbers](#) for the first quarter of 2020, and they are pretty solid.

A look at Q1 numbers

Equitable Group's retail loan principal outstanding on March 31, 2020, was up 11% from \$16.6 billion a year ago to \$18.5 billion. This figure for commercial loan principal outstanding was \$8.3 billion, up 7% from \$7.7 billion in 2019. Deposits stood at \$15.5 billion, up 6% from \$14.6 billion in the prior-year period.

There has been a significant negative impact on earnings due to COVID-19, as the bank reported an EPS of \$1.7, down 38% from \$2.72 in Q1 of 2019.

EQB has increased its Provision for Credit Losses (PCL) to \$35.7 million, as economic conditions in

the country are changing, and there is an expectation that there will credit losses in the future.

The company has declared a quarterly dividend of \$0.37 per share. It has not cut down its dividend from the one it paid in March 2020 but is a 19% increase from a year ago. EQB had announced its intention to grow its dividend at 20-25% for each of the next five years, but that has been paused for now.

Since the company's dividend-payout ratio is just 11%, it doesn't seem that the dividend is in any danger of a cut as of now. The stock's forward yield stands at 2.6%.

Is this TSX stock a buy?

Around 17.9% of EQB's loan book is in deferral. The company has deferred mortgage payments for just over 14,500 customers. A little over half of them have been given a three-month deferral, while the others are for shorter terms.

While the company says it has deferrals under control, it has also increased the size of its liquid asset portfolio. It has increased its liquid assets by around \$600 million on March 31, 2020; that now represents 7.5% of its total assets, up from 7.3% last year.

On the sales front, the Canada Real Estate Association has said that there is a drop of over 55% in sales and listings in Vancouver and Greater Toronto.

EQB is not too worried on this front. as it says around 70-75% of its projects are complete, and a lot of the projects are heavily geared toward the multifamily and condo construction segment. A lot of these constructions come with significant pre-sales. There is very "little residual exposure" here. Less than 10% of projects under construction have experienced a stoppage.

EQB stock has a forward price-to-earnings multiple of 5.5 and a price-to-book ratio of 0.67. Analysts tracking the company expect EQB stock to touch \$81 in the next 12 months.

EQB is a good bank with strong financials, and it is very likely that its stock will go back to over \$100 in a couple of years. That is a massive upside from current levels. It is a good buy for long-term investors.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:EQB (EQB)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/15

Date Created

2020/05/21

Author

araghunath

default watermark

default watermark