Double Your Money (or More!) With This Unloved Dividend Stock

Description

Many investors — myself included — love dividends. There are few better feelings than watching passive income flow into your account.

But we income lovers must remember that capital gains are important too. This is why I personally spend some time thinking about upside potential as I analyze any prospective addition to my portfolio.

I'm looking for stocks that can at least double my money all within a reasonable time frame. Once I combine that with a dividend, it has the possibility of being an excellent investment.

What does a stock need to possess to have the ability to double your money? Growth potential is a must, of course. But it should also have an excellent business model. We live in a world where valuation matters less than it ever did before. Investors want to see a stock with growth, although a cheap valuation isn't necessarily a bad thing.

The best investors can do is buy a stock like that at a discount after other investors fall out of love with it. They can patiently hold until the next leg up, patiently waiting for a company has the potential to double your money. In other words, a good strategy is to buy a growth stock when it's temporarily unloved.

Let's take a closer look at one such stock — a company I think you'll regret not owning a decade from now.

A double your money kind of stock

Equitable Group (TSX:EQB) has a couple of powerful things going for it, giving the company the potential to easily double your money.

First, let's talk about why shares are so cheap today. There's little doubt an economic slowdown hits the banking sector hard. It's difficult to afford your mortgage if you lose your job. As Equitable focuses on a more subprime market, it's easy to argue that a recession will impact that stock more than banks that focus on safer borrowers.

Bank investors are also worried about the price of real estate. CMHC recently went on record telling investors it expects the average home price to fall between 9% and 18% across Canada.

Remember, it has $27 billion worth of loans on its balance sheet, compared to a market cap of $1.2 billion. Of course this ratio is going to make investors a little nervous.

This temporary weakness is excellent news for investors looking to buy this stock. It’s a great buying opportunity.

One reason the stock is such a compelling buy is its growth potential. Equitable has grown its bottom line from approximately $3 per share a decade ago to $11 per share today. While that alone is impressive, it still has loads of additional potential.

The subprime mortgage market in Canada could easily be worth hundreds of billions. And that doesn’t even include other areas the company has expanded into, like reverse mortgages.

Another source of upside will be when investor sentiment increases. Equitable trades at just 6.3 times its trailing earnings. That’s simply too cheap. I see fair valuation in the medium term to be in the 10-12 times earnings range. This multiple expansion alone will almost be enough to double your money.

And finally, let’s not forget about Equitable’s dividend. The current yield is a hair over 2%, but investors can expect annual raises for the next decade or more, especially given its low payout ratio. Equitable pays out less than 20% of its earnings back to shareholders, a much lower number compared to its competition.

The bottom line

Equitable shares were more than $110 each just a few months ago. These days the stock is lingering around $70.

It’s an excellent time to buy shares. The stock could easily double your money in a few short years as the current economic climate gets better, as well as being a solid long-term hold after that. This is the kind of stock you’ll want to hold for a very long time.

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