



Forget Royal Bank Stock! This Emerging Challenger Could Be Much Bigger

Description

Canada's biggest stocks are all banking companies. **Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) is the biggest of them all. Royal Bank stock's steady climb upward since the crisis erupted in March is a testament to the banking sector's resilience. However, Canada's financial giants face an emerging threat driven by technology.

So-called challenger banks have [emerged to snatch away market share](#) from the big four. Unburdened by legacy assets or vast branch networks, these emerging banks are more nimble and cost-effective. Their digital-first approach is likely to appeal to millennial and Gen Z savers as they accumulate wealth over the next few decades.

In other words, these are the banking giants of the future. If you're a few decades away from retirement you may want to consider these challenger banks over Royal Bank stock for your portfolio.

Tangerine

Bank of Nova Scotia's ([TSX:BNS](#))([NYSE:BNS](#)) acquisition of Tangerine in 2012 set the stage for this tiny startup to become a major challenger. Tangerine's no-fee chequing and savings accounts have managed to attract over 2 million users across the country. The bank collectively manages \$38 billion in total assets for its clients.

By Canadian banking standards, that amount is tiny. However, Tangerine's asset base and customer network is expanding faster than any other. The bank's digital-first approach to signups has helped it attract attention from digital native users who think of walking into a bank branch as an unbearable chore.

As these younger clients accumulate more assets and start buying houses, Tangerine could drive immense growth for its parent company. The lack of a similar digital-first approach or a challenger bank could stymie Royal Bank stock in the future.

EQ Bank

Equitable Bank ([TSX:EQB](#)) has already outperformed Royal Bank stock. EQB stock is up 52% since late-March this year, while Royal Bank stock is up only 33% over the same period.

The law of large numbers seems to be at play. EQ Bank is relatively smaller and much more nimble. The challenger bank has only 60,000 customers, compared to Royal Bank's 16 million. The smaller firm also has just \$3 billion in deposits.

However, EQ Bank's branchless and virtual system helped it accumulate more clients during the crisis. The company claims signups tripled over the three month lockdown period in early-2020. Customers were probably attracted by the bank's lower costs for banking and better interest rates (2% on Savings Plus Account).

EQ Bank also attracts another cohort – recent immigrants. Parent company Equitable Bank is a leading lender to recent arrivals and people with no credit history. This provides a pipeline of new customers for the challenger bank that should accelerate over time as Canadian immigration policies loosen further.

Bottom line

Royal Bank stock is a robust bet for any income-seeking investor. The country's largest bank provides the most lucrative and reliable dividend of them all. However, if you're a few decades or years away from retirement, I would recommend focusing on challenger banks such as EQ or Tangerine for better value.

As ice hockey legend Wayne Gretzky would say: "Skate to where the puck is going, not where it has been."

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:EQB (EQB)
5. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Sharewise

6. Yahoo CA

Category

1. Investing

Date

2025/08/24

Date Created

2020/07/16

Author

vraisinghani

default watermark

default watermark