



Don't Miss This Digital Bank Stock for Growth

Description

The big banks have come a long way to increase their online presence. As of the last reported quarter, about 53% of **RBC's** ([TSX:RY](#))([NYSE:RY](#)) +14 million clients were active digital users. **TD Bank's** ([TSX:TD](#))([NYSE:TD](#)) digital penetration was a bit higher at roughly 57% with more than 14.3 million digital users from its retail customer base.

This digital bank is gaining traction in this pandemic

To gain exposure to a bank with a fully digital platform, investors can buy **Equitable Group** ([TSX:EQB](#)), which operates through its wholly owned subsidiary, Equitable Bank, or simply "EQ Bank." The bank provides residential lending, commercial lending, and savings solutions to Canadians through its digital banking platform.

Global News [reported](#) that "It took EQ Bank nearly two years to grow from \$2 billion to \$3 billion in deposits. But just in the past three months, the online platform of Equitable Bank soared past the \$4 billion mark."

Equitable Group management estimated that roughly 60% of the increase was due to the coronavirus pandemic. It also believes that Canadians are shifting towards EQ Bank for the value it brings.

For example, the EQ Bank Savings Plus Account is both a chequing and savings account that provides value and convenience to customers. It offers a very competitive interest rate, which is currently at 1.7%. Furthermore, it has no monthly fees and requires no minimum balance, which is perfect for value-conscious Canadian savers.

The bank stock outperforms

EQ Bank's lower margin is compensated by greater revenue and more stable earnings. Its trailing 12-month (TTM) revenue climbed 7% versus a year ago, while its normalized earnings per share (EPS) only fell 2%. It also managed to increase deposits by 4%.

In contrast, RBC's TTM revenue fell 3% and normalized EPS dropped 12%, while TD's fell 10% and 19%, respectively. However, they were able to increase deposits by 14% and 17%, respectively.

Deposit growth, particularly retail deposit growth, is positive for the banks, because deposits are a cheap form of funding for loans, from which banks profit from the interest rate spread between borrowing and lending.

Since 2008, EQ Bank stock has delivered annualized returns of about 9.1% against RBC and TD's 8% and 7.6%.

Dividend

Investors should note that Equitable Group offers a smaller dividend yield than its bigger peers. The stock's current yield is about 1.9% versus RBC and TD's 4.5% and 5%, respectively.

That said, due to Equitable Group's typically higher growth, it also tends to increase its dividend at a higher rate. Its five-year dividend-growth rate is 13.7% versus RBC's and TD's rates of 7.5% and 9.5%, respectively.

The Foolish takeaway

Equitable Group stock will likely continue to [provide above-average growth](#) in the banking space. Therefore, it's a great complementary holding on top of core big bank holdings that provide nice dividend income.

At about \$76 per share, Equitable Group stock trades at a discount of about 16% from its normal levels. According to the average analyst 12-month price target of \$90.50, the bank stock offers near-term upside potential of nearly 19%, which is more attractive than its bigger peers.

Technically, before Equitable Group stock can go higher, it needs to break above its 50-day simple moving average, which currently sits at about \$86 per share and serves as resistance.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing
5. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)

2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:EQB (EQB)
4. TSX:RY (Royal Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing
5. Stocks for Beginners

Date

2025/08/24

Date Created

2020/09/12

Author

kayng

default watermark

default watermark