



## First National Financial Corp.: Could This Be a Rare Buying Opportunity?

### Description

The prime mortgages giant, **First National Financial Corp.** ([TSX:FN](#)) lost almost 11% of its market value on April 26 in a fire sale of mortgage-related stocks triggered by the **Home Capital Group Inc.** ([TSX:HCG](#)) fiasco. At a current market price of \$23.10, could this be the rare opportunity for investors to grab the quality financial stock at a massive discount?

First National is an originator, underwriter, and servicing agent of prime residential and commercial mortgages. The company's Residential Mortgages segment includes single-family and multi-family units, while its Commercial Mortgage operations include multi-unit residential and commercial mortgages.

The company also invests in short-term mortgages and provides underwriting and fulfillment processing services to mortgage originators using the mortgage broker distribution channel.

While it's still very debatable if First National should suffer and bleed with the Home Capital Group's fall from market grace, the contagion effect might have granted those investors who view this market crisis as a short-term mishap with a great opportunity to jump in to this stock at its weakest moment.

With the recent share price plunge, First National's shares now trade at a relatively cheap trailing P/E ratio of just 7.07 times, and its dividend yield has shot upwards to 8.01%, which is great for an entity that has increased its dividend by more than 9% in the past year and recently by 8.82% in March 2017.

This is a cheap valuation for a reputable mortgage originator with a rock-solid mortgage portfolio and an enviable revenue growth rate. First National grew its revenues by 15% in 2016 with residential mortgages increasing 2% and commercial mortgages increasing 6%.

The company was anticipating a lower seasonal origination in the Residential segment for the remainder of 2017 when it reported its first-quarter earnings on April 25. It is a mortgage originator and broker favourite, and its fortunes may be boosted by potential market share growth from the struggling Home Capital Group.

It is hard to believe that mortgage brokers will continue to give Home Capital Group significant

business after this latest risk-induced market crisis. First National Financial might benefit from this market turmoil in the end.

The recent government meddling in real estate rental levels remains to be understood; this area may warrant a close following to judge if this intervention may impact future mortgage market growth, and to what extent the raging real estate bull market may be tamed.

### **Investor takeaway**

First National's business model remains intact, and the asset quality of its mortgages book is not questionable at the moment.

Unless there are other tangible factors linking the crisis in Home Capital Group to other mortgage sector players like this solid financial sector player, an investment in First Financial stock right now could capture a solid and growing 8% dividend yield and some significant long-term earnings-growth opportunities.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:FN (First National Financial Corporation)
2. TSX:HCG (Home Capital Group)

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1. Investing

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