



These Stocks Could Jump After Warren Buffett Lifeline to Home Capital Group Inc.

Description

When Warren Buffett bailed out **Home Capital Group Inc.** ([TSX:HCG](#)) last month, the world's most successful stock picker said two things about the Canadian economy.

First, Buffett gave a vote of confidence to the Canadian banking system, providing a lifeline to this troubled mortgage lender at a time when its survival was in doubt. After a massive run on its deposit, investors were speculating that this plague will spread to other mortgage providers, betting on a catastrophic outcome from Home Capital Group's mess.

But Buffett, the CEO of **Berkshire Hathaway**, proved short sellers wrong. He rescued one of the top Canadian lenders with a \$400 million equity stake and a \$2 billion line of credit.

Second, Buffett's interest in Home Capital Group shows that he is confident about the strength of the Canadian real estate market, negating the general perception that the swelling home prices in the country's two largest cities have created a bubble which is about to burst.

Now that these fears are largely behind us, I see some great opportunities in the Canadian banking stocks for long-term income investors who, like Buffett, believe in the robustness of the country's financial system.

First National Financial Corp.

Toronto-based **First National Financial Corp.** ([TSX:FN](#)) offers a 6.8% dividend yield with over 10 years of sustained payment history. FN stock meets many criteria which dividend investors seek to analyze companies' profitability and sustainability.

For example, First National has never missed a dividend payment in the past 10 years. Its dividend-payout ratio of 52 suggests that the bank generates enough cash each quarter to maintain its monthly dividend payouts.

The bank commands a solid position in Canada's single-family home mortgage market. Being the

largest non-bank mortgage originator and underwriter in Canada, it holds one of the top three positions in the mortgage broker channel. Overall, First National has about 5% share of Canada's single-family mortgage market.

To counter the expected weakness in Canada's residential mortgage business after tighter lending regulations, the lender maintains a good mix of commercial and residential lending. The commercial activity is likely to pick up as the economy improves and make up for a possible slowdown on the residential side of the business.

Trading at \$27.15 a share, FN shares still offer a good value for long-term investors, despite a 19% rally since late April. I expect shares have the potential to breach the 52-week high of \$32.23 soon.

Equitable Group Inc.

Equitable Group Inc. ([TSX:EQB](#)) shares have also pulled back as investors shun Canadian lenders indiscriminately in recent months. To quash an attack by short sellers, the bank secured a new \$2 billion standby credit facility last month from a group of top Canadian banks to strengthen its funding position and restore investors' confidence.

Though its stock has rallied over 60% since hitting a four-year low in late April, it still has the potential to grow with solid funding lined up and the alternative mortgage market getting back to normal. Last month, Equitable Group reported a 55% increase in its first-quarter earnings compared with the same period a year ago, beating analyst estimates.

For value Investors who want to take a long-term position in Canada's banking stocks, EQB stock still offers a cheap opportunity with the price-to-earnings multiple of just 6.38.

The stock also pays a steady dividend each quarter, currently yielding 1.55%, or \$0.23 a share. The company has been rewarding its investors with dividend hikes each year since 2010. At \$59.48, its stock is still trading below its 52-week high of \$74.66.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

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Date

2025/08/19

Date Created

2017/07/04

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