



Why First National Financial Corp. Fell 4.1% on Wednesday

Description

First National Financial Corp. ([TSX:FN](#)), the parent company of Canada's largest non-bank originator and underwriter of mortgages, announced its second-quarter earnings results after the market closed on Tuesday, and its stock responded by falling over 4% on Wednesday. Let's take a closer look at the results and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity or a warning sign to stay away.

The results that ignited the sell-off

Here's a quick breakdown of 10 of the most notable statistics from First National's three-month period ended on June 30, 2017, compared with the same period a year ago:

Metric	Q2 2017	Q2 2016	Change
Single-family mortgage originations	\$3.25 billion	\$4.13 billion	(21.3%)
Commercial mortgage originations	\$1.46 billion	\$1.36 billion	7.7%
Total mortgage originations	\$4.71 billion	\$5.49 billion	(14.1%)
Revenue	\$292.2 million	\$253.92 million	15.1%
Income before income taxes	\$93.08 million	\$55.9 million	66.5%
Pre-FMV EBITDA	\$68.28 million	\$68.19 million	0.1%
Net income	\$68.77 million	\$41.25 million	66.7%
Earnings per share	\$1.13	\$0.67	68.7%
Total assets	\$30.83 billion	\$31.01 billion	(0.6%)
Mortgages under administration	\$99.53 billion	\$96.59 billion	3%

What should you do with First National's stock now?

It was a challenging quarter overall for First National, which it attributed to the new mortgage insurance rules introduced by the Department of Finance in October 2016, rising interest rates, and higher costs of portfolio insurance, among other factors, so I think the 4.1% drop in its stock was warranted.

However, I also think the decline has resulted in an extremely attractive entry point for long-term investors for two primary reasons.

First, it's wildly undervalued. First National's stock now trades at just 8.7 times fiscal 2017's estimated earnings per share of \$2.91 and a mere 8.4 times fiscal 2018's estimated earnings per share of \$3.01, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.2.

Second, it has a fantastic dividend. First National pays a monthly dividend of \$0.154167 per share, representing \$1.85 per share annually, which gives it a rich 7.3% yield. The company has also raised its annual dividend payment for five consecutive years, and its 8.8% hike in February has it on pace for 2017 to mark the sixth consecutive year with an increase, making it both a high-yield and dividend-growth play.

With all of the information provided above in mind, I think all Foolish investors should strongly consider using the post-earnings weakness in First National's stock to begin scaling in to long-term positions.

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