# Alternative Lenders Are Showing Strength After BoC Rate Hike

## Description

Investors have been given some breathing room from the Bank of Canada (BoC) decision to raise interest rates to 1% on September 6. The first rate hike on July 12 brought with it a slew of investor anxiety and a drop and subsequent flattening in the stock value of top Canadian alternative lenders. How much of that anxiety has remained?

Well, the market reaction so far seems to suggest that minds have been put at least somewhat at ease.



The stock price of **Home Capital Group Inc.** (TSX:HCG) rose 1.78% on September 12. Shares were down early in the day as news broke about a shareholder meeting that saw an 89% majority reject a bid from **Berkshire Hathaway Inc.** to purchase a tranche of shares at a 25% discount. The decision from shareholders was met with enthusiasm in the room after the results were announced. Shareholder confidence appears to be at a post-crisis high.

Home Capital stock is now up 2.5% since the announcement from the BoC as of close on September 12. This is in contrast to the cool response following the first rate hike which saw the share price move at the same rate in the opposite direction. Home Capital shareholders pointed out during the meeting that better deposit inflows and liquidity have improved the outlook.

**Equitable Group Inc.** (TSX:EQB) stock moved up 3.05% on September 12 — the biggest single day gain since June 22, the same day the original Berkshire Hathaway deal was announced at Home Capital. The perceived show of strength at Home Capital clearly gave the green light to investors that alternative lenders are in a greater position of strength than was originally thought.

Equitable Group is up 5.2% since the rate hike as of September 12. The company also reported positive second-quarter results on August 10. Net income increased 16% compared to Q2 2016, and in the first half of this year it is 34% higher compared to the same period the year previous. The stock also boasts a dividend of $0.24 per share, representing a dividend yield of 1.7%.

Post-rate hike, both companies are giving investors reasons for optimism. However, there are still significant obstacles for alternative lenders in the current economic climate. A recent report from the Toronto Real Estate Board shows that house prices are down 25% from the peak experienced in April.

New mortgage regulations from the OSFI are set to bring new challenges to the market as well. These regulations were specifically targeted in the recent quarterly report for Home Capital and Equitable Group as a potential drag on future sales growth.

The record high Canadian debt-to-income ratio also carries with it the constant concern that rising interest rates could pop what some fear is a credit bubble. Even in light of these trends, both alternative lenders are looking to be in a much stronger position than when the previous rate hike kicked in. At Home Capital, where the housing correction and restructuring has been largely priced in, investors may find an enticing long play.

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2. TSX:HCG (Home Capital Group)

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