



## Review of My Top Stock for October: Equitable Group Inc.

### Description

On October 17, the Office of the Superintendent of Financial Institutions (OSFI) published new mortgage rules that will be implemented starting January 1, 2018. The most talked-about addition is the new “stress test” requirement for uninsured borrowers — those with a 20% down payment or more. In the past, only uninsured borrowers were subject to this stipulation.

Some real estate industry experts are concerned that this new requirement will further cool a housing market that was just subjected to a correction following new mortgage regulations instituted by the Ontario government.

Others argue that with the Bank of Canada now committed to a period of gradual tightening of interest rates, the move is a safe play.

**Bank of Montreal** chief economist Doug Porter pointed out that the uninsured market has made up the bulk — about 80% — of home-buying activity in the months following the implementation of the previous stress test for insured buyers.

Shares of **Equitable Group Inc.** ([TSX:EQB](#)) were down 1.6% following the news but have increased 4% in October thus far.

Equitable Group was my top October stock pick as real estate numbers saw an uptick in September, and investor sentiment towards housing had turned with sales below \$500,000 picking up to spring levels.

Overall, sales and prices are still down significantly from highs seen in April, with homes over this price threshold spending a longer time on the market.

A note released from **Royal Bank of Canada** predicted that alternative lenders like Equitable Group and **Home Capital Group Inc.** ([TSX:HCG](#)) would likely take the biggest hit following the new OSFI rules.

In recent quarterly earnings, both lenders also predicted the potential for lost business as the OSFI had

floated the change in rules earlier this year.

With the deadline set for next year, it is possible the industry could see a slight rush with buyers looking to move forward on a purchase without having to qualify under the new requirements. This uptick, combined with the recovery already underway, could see November and December provide good numbers for the housing industry.

The top Canadian banks already have stringent qualifiers compared to competitors, so it is possible that some prime buyers could crossover and provide a windfall for alternative lenders in 2018.

Equitable Group will release its third-quarter results on November 9. The company posted its second-quarter results on August 10.

Equitable Group announced plans to launch a marketing campaign for EQ Bank in the fall to encourage deposit growth, with its saving plus account rising from 0.30% to 2.30%. The company projects that net interest income should increase 2-5% year over year in the final two quarters.

The stock has declined 3.9% in 2017 as of close on October 20, but it has increased 9.3% year over year. It also offers a dividend of \$0.24 per share, representing a 1.6% dividend yield.

I still like Equitable Group heading into the final months of 2017, but new mortgage rules will provide a huge test for the Canadian housing market.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:EQB (EQB)
2. TSX:HCG (Home Capital Group)

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1. Investing

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