Canadian Debt Continues to Rise: Should You Buy Home Capital Group Inc. or Goeasy Ltd.?

Description

In a new poll conducted by **Canadian Imperial Bank of Commerce,** 25% of those surveyed cited debt reduction as the top financial priority this year. This comes after third quarter data from Statistics Canada revealed that Canadians owed $1.71 for every $1.00 of disposable income. This represents the highest ratio ever recorded. Meanwhile, total household net worth declined 0.1% in the quarter.

The record debt load could be a sticking point as Bank of Canada mulls over its next rate decision on January 17. The Canadian dollar hovered around $0.80 into the weekend as onlookers firmed up bets for a rate hike on Wednesday.

With the Canadian debt load in mind, let's take a look at two stocks that could stand to benefit or be sunk by this ongoing trend.

Home Capital Group Inc.

Home Capital Group Inc. (TSX:HCG) stock has had a rough start to 2018. Shares are down 8.7% as of close on January 12. Alternative lenders closed 2017 relatively strongly, but investor sentiment regarding housing has seemingly caught up to start off the year. Real estate is expected to slow dramatically in response to new mortgage rules introduced by the OSFI. The aforementioned rate hike decision could also bring additional pressure on the real estate market and the industry at large.

Toronto home sales fell steeply in the second half of 2017. Luxury homes suffered the sharpest drop – down 56% in the final six months of 2017. In the third quarter Home Capital returned to profitability but mortgage originations fell by over $2 billion year over year. The company reported total mortgage originations of $385 million compared to $2.54 billion in the prior year.

An early rate hike could see an already-turbulent Ontario housing market thrown into more turmoil. Investors would assume significant risk in taking a flyer on Home Capital right now.

Goeasy Ltd.

Goeasy Ltd. (TSX:GSY) is a Mississauga-based company that provides alternative financial services, including offering unsecured installment loans. The stock has climbed 4.9% in 2018 thus far and is up 56% year over year. According to an Ipsos Reid poll, the average Canadian owes $8,500 in consumer debt. As credit becomes tighter with rising rates and stricter mortgage rules, more Canadians will be apt to pursue lenders like Goeasy.

The company released its third quarter results on November 1, 2017. It posted record customer acquisition, loan originations, and loan book growth in the quarter. Loan originations jumped 55.9% to $157.6 million, and the loan book increased to $47.7 million compared to $17.5 million in the prior year. Net income rose 31.4% to $11.6 million – also a new record.

Goeasy credited its growth to the maturation of its branch retail network, more penetration of risk adjusted rate loans to superior borrowers, and a successful foray into Quebec markets. The company also announced a quarterly dividend of $0.85 per share, representing a 1.8% dividend yield.

Goeasy remains a solid buy even with debt levels at current levels. Canadians have now listed debt reduction as their top financial priority for eight consecutive years. The trend shows no sign of slowing, and although rates are set to rise gradually, they remain far below pre-recession highs.

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Date
2025/08/17
Date Created
2018/01/18
Author
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