Is Equitable Group Inc. Stock a Bargain?

Description

Equitable Group Inc. (TSX:EQB) is a Toronto-based financial services company that provides savings solutions and mortgage lending products. Equitable Group stock has plummeted 19.2% in 2018 as of close on March 9. The stock surged in late 2017 but began selling off quickly in 2018, as investors soured on lenders due to the new OSFI mortgage rules and the expected impact of rising interest rates.

Home Capital Group Inc. (TSX:HCG), another top Toronto-based alternative lender, has similarly struggled to start the year. Shares are down 11.6% in 2018. This is in spite of a marked improvement in successive quarterly results, as the company has undergone a dramatic internal restructuring. However, year-over-year mortgage growth has steeply plummeted.

It is a tense atmosphere in the Canadian housing market as we look ahead to the spring. Industry experts and analysts had predicted that the stress tests introduced on uninsured buyers in the new OSFI mortgage rules would cool housing. A January rate hike from the Bank of Canada also may have jolted an already anxious market. Still, the real estate industry has been projecting a stabilization in the spring and summer.

Toronto home sales were down 35% year over year in February, according to the Toronto Real Estate Board (TREB). This drop occurred, even as listing jumped 7.3%. Home prices were also down 12.4% year over year to $767,818 in the Greater Toronto Area (GTA). Jason Mercer, the director of TREB market analysis, also predicted that sales and selling prices should pick up in the spring and summer months.

Royal Bank of Canada CEO Dave McKay recently praised the actions taken by policy makers in leading to “more healthy dynamics.” Canadian household debt remains at record highs, and international bodies like the OECD and the BIS have warned that Canada should be cautious going forward. There is still the lingering supply issue in the GTA, which should keep prices relatively stable, but credit conditions will likely remain tight throughout 2018.

What does this mean for Equitable Group? Let’s take a look at its fourth-quarter results.

Equitable Group released its 2017 Q4 and full-year results on February 28. The fourth quarter saw net income drop 3% year over year to $40.4 million. Diluted earnings per share fell 8% from Q4 2016 to $2.36. This was while housing sales actually saw a slight uptick in the final months of 2017, as purchasers saw an opportunity to get their buys in before the new stress test came into effect.

For the full year, Equitable Group posted record net income of $160.6 million, which was up 16% from the previous year. Mortgages under management also hit an all-time high of $23.2 billion. The company declared a quarterly dividend of $0.26 per share, representing a 1.8% dividend yield.

In January 2018, Equitable Group launched its PATH Home Plan, which allows homeowners to unlock substantial home equity. With this plan, full repayment is only required after the sale or transfer of a home. The company does not expect the PATH Home Plan to have a large impact on growth in 2018, but estimates that the long-term addressable market for equity release products is around $12 billion.

Investors should expect slower earnings growth for Equitable Group in 2018. The company plans to ramp up its capital investments this year, and the cooling in the first half of 2018 will weigh on mortgage growth. Still, I like Equitable Group at its current price, and the stock also offers a solid dividend. It is an attractive buy-low candidate today.

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Date
2025/08/19
Date Created
2018/03/12
Author
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