Are Equitable Group Inc. and Laurentian Bank Falling Knives or Buy-Low Opportunities?

Description

New OSFI mortgage rules and an interest rate hike in January have bitten into the Canadian housing market so far. The Canadian Real Estate Association (CREA) revised its projections for the Canadian housing market in 2018 and now estimates that homes sales will fall 7.1% compared to 2017. It also projects double-digit declines in Ontario and British Columbia.

The CREA estimated that housing prices will drop by 2.3% nationwide in 2018, as luxury homes see reduced sales activity in the major metropolitan areas of Toronto and Vancouver. In February, the average price of a home in Canada fell 5% year over year. The CREA also confirmed that new OSFI mortgage rules pushed forward purchases for buyers that intended to avoid the stress test on uninsured mortgages. Ultimately, the CREA predicts that home buyers could stay on the sidelines for longer than expected in light of the uncertainty. It expects sales to pick up in the second half of 2018.

The Bank of Canada struck a somewhat dovish tone, as it elected to hold on the benchmark interest rate in March. However, credit tightening is expected to continue, as central banks across the developed world seek to shrink balance sheets after almost a decade of historically low interest rates and easy monetary policy.

Will this be good news for the two stocks we will focus on today?

Equitable Group Inc. (TSX:EQB) is a Toronto-based alternative lender. Equitable Group stock has plunged 22.7% in 2018 and is down 19.3% year over year. It posted strong numbers in 2017, but loan growth will undoubtedly be harder to come by this year. So, is Equitable Group a bargain right now?

In the fourth quarter, mortgage originations fell 9% to $851 million compared to $930 million in Q4 2016. The first quarter of this year should be an interesting test, as sales have plunged year over year in major markets. Equitable Group projected that new OSFI rules would hurt credit growth in a previous quarterly statement. The stock does offer a quarterly dividend of $0.26 per share, representing a 1.7% dividend yield.

Laurentian Bank of Canada (TSX:LB) stock has plunged 13% in 2018 as of close on March 19. Shares are down 16.3% year over year. In the first quarter, adjusted net income rose 20% year over year to $63.2 million, and loans to business customers climbed 22% from the prior year. Laurentian Bank has not completed its review of residential mortgages that were sold to CMHC. However, the CMHC did inform the bank that it will not require Laurentian to perform a full review or make repurchases.

Thus far, Laurentian has identified and extrapolated $392 million worth of ineligible mortgage loans. It expects to complete its internal review by the second quarter of 2018.

Should you buy either stock?

Laurentian is likely to continue to experience volatility until it completes its review and investors are given a complete picture of how damaging its underwriting procedures were. Equitable Group will also face challenges with the Canadian housing market unlikely to pick up steam until the latter half of 2018.

Investors on the lookout for long-term plays that play solid dividends may want to consider stacking both stocks as we look ahead to the spring and summer months.

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