2 Housing Stocks to Buy or Sell Today

Description

The state of the Canadian housing market has continued to draw the attention of the Bank of Canada in the first months of spring. Bank of Canada governor Stephen Poloz reassured reporters in mid-April after the central bank announced that it would hold the benchmark interest rate at 1.25%: “The underlying fundamentals of demand remain very solid,” Poloz said in Ottawa.

Real estate industry experts were hopeful late last year that new OSFI mortgage rules would only temporarily cool the market. The general consensus was that the market would balance in the spring and summer months. In March, sales of Toronto homes saw the biggest year-over-year drop in three decades. The CMHC warned in late April that the Canadian housing market is still “highly vulnerable” with overvaluation still listed as an area of concern in Victoria, Vancouver, and Toronto.

The Canadian housing market will undoubtedly be subject to continued monitoring by policy makers as we approach the midpoint of 2018. Let’s take a look at two stocks today that investors may want to dump or add in May.

Sell: Home Capital Group Inc. (TSX:HCG)

Home Capital Group is a Toronto-based alternative lender. Shares of Home Capital dropped 4.2% on May 2, and the stock has fallen 18.3% in 2018 so far. The company is set to release its first-quarter results for 2018 on May 8. Home Capital and other alternative lenders are in danger of slipping further due to tightening regulations and rising interest rates.

The company recently released February 2018 totals that saw insured residential mortgage balances fall by $89 million, while uninsured residential loans increased by $11 million. Home Capital released its fourth-quarter and full-year results for 2017 earlier this year. Total loans under administration fell by 14.8% in 2017 to $22.51 billion, and net income declined to $7.5 million compared to $247.4 million in 2016.

In Q4 2017, Home Capital posted a 64% drop in total mortgage originations. The company is in the process of rebuilding trust in the midst of a massive internal restructuring. Investors should keep their distance in this turbulent market.

Buy: Genworth MI Canada Inc. (TSX:MIC)

Genworth MI Canada is an Oakville-based private residential mortgage insurer. Shares have dropped 2.9% in 2018 as of close on May 2, but the stock is up 4.1% month over month. The company released its 2018 first-quarter results on May 1.

Premiums earned increased 2% from Q1 2017 to $171 million, and net income rose 20% year over year to $128 million. Transactional premiums written increased 22% from the prior year to $109 million. Overall, it was a very solid quarter for a company, which was well positioned to avoid blowback from new regulations that largely impacted uninsured buyers.

Genworth declared a quarterly dividend of $0.47 per share, representing a 4.3% dividend yield. The stock is an attractive income play, and Genworth has passed reasonably well through a rough period for housing. It is a worthy addition to any portfolio today.

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Date
2025/08/21
Date Created
2018/05/03

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