Will a Political Shift in Ontario Be Good News for Housing Stocks?

Description

Back in March, I'd discussed why comments from Doug Ford could be a big deal for the Ontario housing market. Ford vowed to scrap the foreign buyers' tax that was implemented in 2017, and he has also hinted at his intention to open development in the greenbelt. His June 7th election win could turn back some of the regulatory roadblocks the Liberal government put in place in order to cool what was a scorching market early last year.

Tim Hudak, the chief executive officer of the Ontario Real Estate Association and former Ontario PC leader, has predicted that the new government will aim to expand infrastructure. After winning the election, Ford declared that Ontario would be "open for business." It is likely that the PCs will seek to streamline environmental assessment processes and attempt to cut back on delays.

This may be good for builders, but what about the top housing lenders?

Home Capital Group Inc. (TSX:HCG) stock has climbed 5.3% month over month as of close on June 13. Shares have responded well to the election win and are up 3.6% over the past week. The company released its first-quarter results on May 8.

Net income was down 40% year over year. It was around this time last year that Home Capital was faced with its crisis over misleading investors. The fallout almost led to the collapse of the company. Since then, Home Capital has undergone significant internal restructuring and an overhaul for its underwriting practices.

These changes, combined with an overall decline in the housing market, have led to a big drop in originations year over year. In the first quarter, Home Capital reported total mortgage originations of $1.16 billion, which represented a decrease of 50.6% from Q1 2017. Total loans fell 18.1% year over year to $15.22 billion.

Home Capital boasts a solid capital and liquidity position going forward, but it will take time for the company to recover from its 2017 troubles. There are simply better options for investors in 2018.

Equitable Group Inc. (TSX:EQB) stock has surged 6.1% over the past week. Shares are still down

18.9% in 2018 so far. Equitable Group managed to post solid results up to the end of 2017, but the housing slowdown finally caught up to earnings in the first quarter.

Net income fell 7% from the prior year to $40.2 million in Q1 2018, and diluted earnings per share dropped 8% to $2.34. Mortgages under management grew to a record $23.8 billion. The board of directors also declared a 4% dividend increase to $0.27 per share. This represents a 1.7% dividend yield.

Equitable Group stock has shed nearly $20 of value since reaching an all-time high in December 2017. The stock offers a solid dividend, but Equitable Group will still be subject to the same broader trends that are dragging down other lenders. The big banks have projected a steep slowdown for mortgage loan growth in the latter half of 2018, so investors should exercise caution.

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Date
2025/08/20
Date Created
2018/06/14
Author
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