Canada Housing on the Rebound: Will Equitable Group Inc. (TSX:EQB) Stock Continue to Rise This Summer?

Description

In early July, I'd recommended **Equitable Group Inc.** (TSX:EQB) as one of my top two housing stocks to stash in a TFSA. I'd also detailed why housing was in a good position to bounce back in the second half of 2018 with the new Ontario government, consistently high immigration, and dovishness on rates all contributing to a positive environment.

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Equitable Group stock has climbed 7% since July 4. The company is set to release its second-quarter results on August 8. The broader housing picture in Canada has also improved in this short time.

The Canadian Real Estate Association (CREA) reported that June sales were up 4.1% compared to May. According to CREA, this represented the first "substantive" increase so far this year. June sales were still down 10.7% from the prior year. CREA chief economist Gregory Klump said that the increase in June activity could indicate that Canada housing is "starting to turn the corner." Average home sale prices were also down 1.3% from a year ago to $496,000.

The Teranet-**National Bank** Composite House Price Index also showed a price increase of 0.9% on a monthly basis with 10 of 11 markets showing a jump. However, analysis from National Bank pointed out that this was a historically weak performance for the usually strong month of June.

Spring is a historically busy season for housing, so there is reason for healthy skepticism when it comes to the long-term prospects for the market. To add to that, there are also concerns over slowing growth and ongoing trade disputes that could hurt the economy and subsequently spread into a fragile housing market. The Bank of Canada has consistently warned that Canada housing represents an ongoing risk, and international institutions like the IMF and OECD have also pointed to the market as an area of concern.

In its first-quarter report, Equitable Group projected that new regulations would be a drag on earnings for the next few quarters. The company forecast that its originations would still come in higher than its attrition numbers. Equitable Group is also dedicating more resources to growing its commercial lending and reverse mortgages businesses in order to combat slowing growth.

The good news for Equitable Group and other lenders is that new regulations and rate tightening will also lead to higher retention rates. Lenders should also see margins improve after nearly a decade of historically low interest rates. This may slow loan growth, but earnings should not experience dramatic slippage heading into next year.

Equitable Group stock is still down 14% in 2018. Investors should watch the housing market closely to see if June numbers represent the beginning of a true rebound. If this is the case, Equitable Group could benefit immensely from this, as investors may be more willing to turn to housing stocks in a better market. The stock also offers a solid quarterly dividend of $0.27 per share, representing a 1.6% dividend yield.

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