2 Strategic Stocks for Your Financials Portfolio

Description

Financials are often described as being the backbone of the TSX, and looking at their representation in the average Canadian investment portfolio, it's hard to argue with that. However, while most investors tend to stick with the bigger banking institutions, there are still some strategic plays out there among fringe lenders. Let's take a look at a couple of moderately overlooked stocks with two very different sets of multiples.

Today's pick for growth investors

Home Capital Group Inc. (TSX:HCG) is looking pretty battered right now. It's currently loss-making, leading to unreadable value multiples. Therefore, we have to look to a comparison with its future cash flow value to see whether it's worth buying. Unfortunately, Home Capital Group is overvalued by about one-fifth of its share price.

It's a healthy stock, though, with a good balance sheet. This should go some way to reassure would-be investors looking to capitalize on a huge 55.1% expected annual growth in earnings. And analysts looking for evidence of quality in a stock that has negative earnings per share might be cheered by its P/B of 0.7 times book.

However, it looks as though Mr. Buffett may have lost his magic touch of late, since this stock still looks a little flat, despite his heroic credit lifeline. The main deciding factor for a hold signal would be the downturn in first-time mortgage buyers in the Canadian housing market, exacerbated by serially rising interest rates and new rules for lenders. Also, looking at the trend, it's hard to believe that this dividend-free stock has any significant upside. However, keep an eye out, because there may yet be some upward momentum, and that high growth is very tempting.

Today's pick for value investors

Equitable Group Inc. (TSX:EQB) is discounted by 34% compared to its future cash flow value, and it has near-perfect value fundamentals to back it up. Look at that P/E of 6.6 times earnings for starters. Equitable Group's current PEG of 0.9 times growth indicates, alongside a pretty negligible 7.4% expected annual growth in earnings, that this is not a growth stock, leaving it squarely in the value investment camp.

Its P/B of 0.9 times book is ever so slightly too high for the Canadian mortgage industry. However, the margin is so slim that we may as well call Equitable Group's book price market weight.

Past performance for this stock isn't anything much to write home about, though it is rather healthy and has a good balance sheet. Equitable Group holds an acceptable ratio of non-loan assets, while its liabilities consist mostly of low-risk funding sources. Add a dividend yield of 1.76%, and you have a moderate buy signal.

The bottom line

Home Capital Group is a good choice for high-growth investors who don't mind taking a bit of a risk and like to follow the advice of high-profile superstar investors such as Warren Buffett. Meanwhile, value investors have a great play in Equitable Group with its good multiples and reassuring balance sheet. Depending on your investment type, either would make a compelling pick for your financials portfolio.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:EQB (EQB)
2. TSX:HCG (Home Capital Group)

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