
2 Housing Stocks to Watch in August

## Description

Earlier this month, I'd discussed the apparent rebound in the housing market in June. Two reports came out in July that gave reason for optimism going forward. One was from the Canadian Real Estate Association (CREA) which showed that June home sales were up 4.1% from the previous month. The Teranet-National Bank Composite House Price Index also posted a 0.9% price increase on a monthly basis.



**National Bank** analysts also pointed out that this June was historically slow, which may give investors pause who are betting on a substantial rebound for the remainder of the year. Still, recent reports indicate that the housing market is stabilizing after a tumultuous year in the second half of 2017 and first half of 2018.

This optimism has translated to a positive performance for the top two alternative lending stocks. Should investors feel good about adding either or both as we head into the month of August? Let's take a look.

**Home Capital Group Inc.** (TSX:HCG) stock has climbed 5.8% month over month as of close on July 27. The company is set to release its second-quarter results after markets close today. Should investors feel confident that the stock will continue its current momentum?

It should come as no surprise that Home Capital has been unable to repeat its pre-crisis success. The company was forced to undergo tremendous internal restructuring after its near collapse in the spring of 2017. Earnings in the first quarter were up from Q4 2017, as profit rose 13% and diluted earnings per share increased 13.2% to $0.43. However, year-over-year net income was down 40.4%, and diluted EPS plunged 52.2%.

The good news is, mortgage originations grew 32.9% from Q4 2017. Originations suffered a steep drop from the prior year, but the momentum is evidence that brokers are willing to turn to Home Capital again. New OSFI mortgage regulations will slow loan growth in the coming months, as banks are also expecting blowback in the second half of this year. However, Home Capital has forecasted that retention rates will improve dramatically.

**Equitable Group Inc.** (TSX:EQB) stock is up 8.2% over the last three months. Back in March, I'd recommended that investors scoop up Equitable Group in spite of choppy housing market conditions. Equitable Group is still trading more than $10 off of the all-time high it reached in late 2017.

Equitable Group is set to release its second-quarter results on August 9. In the first quarter, Equitable Group also suffered a pullback compared to the prior year, but this was projected by the company when new OSFI regulations were announced. Profits were down 7% from Q1 2017, but mortgages under management still hit a record $23.8 billion. The board of directors also declared a dividend increase to $0.27 per share, representing a 1.6% dividend yield.

**Should you buy either stock today?**

I will continue to maintain my positive outlook for Equitable Group compared to Home Capital based on its ability to climb out of the 2017 spring crisis relatively unscathed as well as its rock-solid dividend. However, I still expect Home Capital to continue to post solid quarter-over-quarter growth, as its internal operations get back up to speed. Both stocks are only a hold ahead of second-quarter results.



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2. TSX:HCG (Home Capital Group)

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