2 Stocks That Hinge on the Canadian Housing Market in 2019

Description

A recent report from **Royal Bank of Canada** revealed that housing affordability in most Canadian cities would continue to worsen in 2019. This will occur with home prices projected to dip or rise marginally this year. RBC Economics Research projects that house prices will rise 0.5% in 2019 while sales will increase 5.6%.

First-time home buyers are facing mounting challenges in 2019. New CMHC rules were introduced in late 2018 to give self-employed and contract workers more flexibility with lenders. However, rising rates and the current stress test have reportedly frozen out more than 100,000 first-time buyers since the new rules started in January 2018.

In the final months of 2018, many major metropolitan housing markets in Canada looked to have stabilized. Canada is still heavily reliant on real estate to generate growth in the overall economy. Many real estate market bulls expect high rates of immigration to support the market into the next decade, but there is no question that the environment will be much leaner than the previous decade.

Today, we are going to look at two alternative lenders that showed a marked improvement in earnings in 2018. Both are expected to release fourth-quarter results in February. Should you look to add either today?

Home Capital Group (TSX:HCG)

Home Capital stock has climbed 10.7% over the past three months as of close on January 7. Shares have been mostly flat year over year. The stock soared into overbought territory in November following the release of its third-quarter report. The stock has since settled down and at an RSI of 52 and is in neutral territory in early January.

In the third quarter, Home Capital saw mortgage originations surge 273% year over year to $1.44 billion. Home Capital underwent significant internal restructuring following its spring 2017 crisis and seems to have mostly recovered in late 2018. Single-family mortgage originations rose 7% from Q2 2018 to $1.02 billion.

Home Capital does not offer any income for would-be shareholders, and the company is still navigating a challenging environment. The second stock we will look at today looks like the better hold.

Equitable Group (TSX:EQB)

Equitable Group stock has dropped 4.3% over the past three months. Shares are down 10.2% year over year. The stock fell off sharply in December as broader stock market weakness took its toll on most stocks in the financial sector. Previously, Equitable Group had built momentum on the back of impressive third-quarter results.

The biggest shock in the third quarter was Equitable Group projecting portfolio growth of 11-13% in 2018 compared to its previous projection of 2-4%. Like other lenders, Equitable Group has also benefited from superior retention rates with an assist from new OSFI mortgage rules. The company declared a dividend of $0.28 per share, representing a modest 1.7% yield.

Equitable Group has managed to power through a challenging housing environment with results that blew away expectations. The stock looks fairly priced in early January, but investors should anticipate volatility in the mixed Canada housing market.

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aocallaghan