Quebec Growth to Dip in 2019: Will it Hurt These 2 Stocks?

Description

In late 2017, I'd discussed stocks to follow with the Quebec economy displaying impressive strength. The Quebec economy posted estimated 2.8% GDP growth in 2017. This fell to 2.4% in 2018. Now, with broader Canadian growth expected to dip to 1.7%, the Quebec economy also looks poised to fall below the 2% growth threshold.

Current projections have Quebec growth reaching 1.9% in 2019. This cooling is expected to come from lower domestic demand, particularly in residential investment. Housing in Quebec has been a bright spot, with Montreal home price growth set to surpass all major cities even this year. Quebec has avoided having to impose cooling measures that investors have seen in major metropolitan areas like Vancouver and Toronto, which have seen soaring prices and the emergence of an affordability crisis.

However, tighter mortgage rules are expected to impact the province in 2019. The Quebec government projects a 1.4% decline in residential activity after a 5.4% increase in 2018.

Are economic headwinds a cause for concern for those betting on Quebec-based equities? In mid-December, I'd focused on two bank stocks that were reliant on activity in Quebec. How do these equities look today?

National Bank (TSX:NA)

National Bank stock has climbed 9% in 2019 as of early afternoon trading on January 30. Shares are still down 4% year over year. CEO Louis Vachon recently touted National Bank's strong footprint in Quebec, saying that this would propel growth going forward.

Unfortunately, weakening housing activity in Quebec has had an impact on National Bank. The bank recently partnered with M3 Group, which means that it will be dipping back into the broker channel. In late 2016, National Bank ended is direct relationship with the broker channel, instead electing to increase its funding of third-party lenders. This new program with M3 will launch in April, but only in Quebec for the time being.

Currently, National Bank boasts an RSI of 71, indicating that the stock is in overbought territory as of this writing. Investors who'd bought in December may consider taking some profits, while those looking to buy will likely be paying a premium in late January.

Laurentian Bank (TSX:LB)

Laurentian Bank stock has surged 16.3% in 2019 as of early afternoon trading on January 30. The stock is still down 16% year over year. Laurentian is a regional bank based in Quebec. Its stock reached 52-week lows in late December and has bounced back nicely along with many of its peers on the TSX.

Laurentian Bank stock took a hard hit in 2018. The bank was forced to incur restructuring costs after conducting an internal review of its mortgage underwriting that found several contaminated files. Still, for the full year, Laurentian reported a 5% increase from 2017 in total revenue to $1.0 billion. Adjusted profit also increased 5% to $241.6 million.

Laurentian last paid out a quarterly dividend of $0.64 per share. This represents an attractive 5.7% yield. However, its RSI last stood at 65, which is close to overbought territory in late January.

Bottom line

Although there are economic headwinds Quebec will contend with in 2019, economists are still expecting robust growth this year. The province is projecting strong growth in non-residential business investment. These two bank stocks are pricey right now, but patient investors should consider both going forward.

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