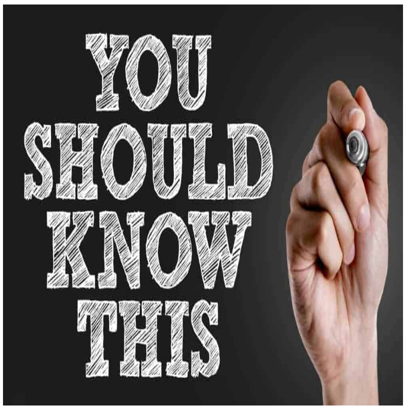

Why I'm Staying Away From Equitable Group Inc. (TSX:EQB) in March

Description

Equitable Group (TSX:EQB) is one of the top alternative lenders in Canada. Shares of Equitable Group were down 2.91% in early afternoon trading on March 4. The stock has increased 24% year over year in the face of a housing market that has been racked by regulatory constrictions and volatility in major metropolitan areas. As we kick off a new trading month, Equitable Group is a risky buy for investors. Let's examine why.

There were some good signs for the Canadian housing market heading into 2019. Sales were still down year over year, but real estate experts were optimistic about the more balanced conditions in the market. Top Canadian banks lowered their five-year mortgage rates in anticipation of increased activity in the spring. The federal government has said that it will explore ways to improve availability for prospective buyers going forward.

In March, we have finally caught a glimpse of how this push may take shape. The Canadian Mortgage and Housing Corporation (CMHC) said that it hopes to make housing affordable for every Canadian by 2030. Over the next year, CMHC plans to fork over approximately $2.4 billion in loans and funding as part of a strategy to build 8,300 units and repair 15,000 more by early 2020. The 2030 target is bold and may be subject to tinkering as a critical federal election looms in the fall of this year.

Equitable Group released its fourth-quarter and full-year results for 2018 on February 28. In the fourth quarter, adjusted diluted earnings per share rose 12% year over year to $2.66. This was a solid wrap-up to what has been an impressive year in the face of headwinds in the housing sector.

For the full year in 2018, Equitable Group reported adjusted earnings per share of $10.10, which was a record. This represented an 8% increase from 2017. The company drew strength from its Single-Family Lending, which saw its mortgage principal grow 14% from 2017 to $10.6 billion. Commercial Lending mortgage principal rose 31% to $3.9 billion, and deposits rose 23% to $13.5 billion.

Equitable Group elected to hike its dividend by 7% from its November 2018 announcement. The stock now offers a quarterly dividend of $0.30 per share. This represents a modest 1.7% yield.

Management forecasts that earnings will experience solid growth in 2019 on the back of the bank's high-performing loan portfolio, improved margins, and the Bennington Financial Corp. acquisition. Equitable Group projects growth of Assets Under Management (AUM) to be in the range of 8-10% year over year.

In early February, I'd warned investors that new deposit rules introduced by the Office of the Superintendent of Financial Institutions (OSFI) could deal damage to Equitable Group's earnings. **National Bank** unveiled analysis last month that projected Equitable Group could see earnings per share reduced by 10% in 2020 if the new rules were implemented without changes. However, the OSFI proposal quickly fell under scrutiny, and it is likely we will see revisions.

I like Equitable Group heading into the next decade, but the stock is pricey in early March. It just fell out of overbought territory, but shares are trading a the high end of its 52-week range.

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