1 Reason to Trust Canada Housing in the Second Half of 2019

Description

Canada housing has received a great deal of attention in the second half of this decade. Housing prices and sales have soared over the past decade, but analysts have consistently warned that the reliance on real estate could disrupt Canada's economy. Federal and provincial governments have stiffened regulations over the past few years, ostensibly to prevent the kind of catastrophe that brought the U.S. economy to its knees in 2007-2008.

To start the year, I explained how the industry was pushing for a booster shot with sales reeling since the introduction of a stress test for uninsured buyers in 2018. Today we'll look at one major reason the housing market will remain sturdy in the second half of the year.

Low rates are here to stay

Noisy bears have consistently pointed to the threat of rate tightening in what has become a dangerously overleveraged economy. Historically high debt-to-income ratios are a concern, but central banks have tiptoed on their rate tightening path. In late 2018, the Bank of Canada threw its policy into flux. A rate hike appears extremely unlikely in 2019. Oddsmakers are more confident that a rate cut is on the horizon.

A low rate environment has been very positive for the housing market. Continued low rates are unlikely to provide a boost to Canada housing, but it should underpin the market as we move into the next decade.

It will benefit lenders like **Equitable Group** (TSX:EQB), which have soared over the past decade in a credit-friendly environment. Equitable Group has thrived in the face of less than hospitable conditions for housing in the past year. The company released its first-quarter 2019 results on May 9. Adjusted diluted earnings per share rose 16% year over year to a record $2.72. Equitable Group's retail loan principal outstanding posted 25% growth to $16.6 billion on strong originations and lower attrition.

Equitable Group announced a 3% hike in its quarterly dividend to $0.31 per share, representing a 1.8% yield. Equitable Group looks like a great value play in June with a forward P/E of 6, trumping its industry peers by a wide margin.

Genworth MI Canada (TSX:MIC) is a private residential mortgage insurer. Around this time last year, I explained why Genworth was my top housing stock to own. Shares have climbed 5.8% year over year.

Genworth released its first-quarter 2019 results on April 30. Net income climbed 21% from the prior quarter to $97 million, while transactional premiums written dropped 33% quarter over quarter. The company has reported modest growth in mortgage insurance commitments in Q1 2019, but it expects improved conditions in the thick of the spring and summer.

Genworth last announced a quarterly dividend of $0.51 per share, representing an attractive 4.8% yield. Genworth has achieved dividend growth for 10 consecutive years. It is a robust option in this sector and boasts a wide economic moat. The stock had a forward P/E of 8, which also puts it in solid value territory in early June.

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Date
2025/07/21
Date Created
2019/06/09
Author
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