2 Dividend Stocks to Buy As Caution Rules in Big Banking

Description

Earlier this year I discussed the rate tightening path undergone by the Bank of Canada and other central banks in the developed world. Policymakers in Canada have also moved to apply tighter regulations in the housing market, which has reportedly frozen out over 100,000 new home buyers since a new stress test was implemented in January 2018. Famed short-seller Steve Eisman has warned that Canada's big banks are ill-equipped for "credit normalization."

Fortunately for investors, there are secondary lenders that have thrived in this changing environment. An indebted populace is increasingly turning to alternatives in pursuing credit. These companies are in a great position to accumulate greater market share as banks grow cautious.

goeasy

goeasy (TSX:GSY) is a Mississauga-based financial services company that offers merchandise leasing and unsecured installment loans. Shares of Goeasy were up 42.9% in 2019 as of close on June 12. The stock was up 26% from the prior year.

goeasy has rattled off 71 consecutive quarters of positive net income after its most recent first-quarter earnings report, representing the 36th consecutive quarter of same-store sales growth. In the first quarter, goeasy reported 46% growth in its loan portfolio to $879 million as net income jumped 65% to $18 million. The company is forecasting solid growth into the next decade and is well positioned for success due to broader trends we have discussed.

goeasy stock boasts a forward P/E of 9, putting it in nice value territory even after a sharp run up in the first half of the year. The stock also offers a quarterly dividend of $0.31 per share, representing a 1.9% yield. This represents a 2.4% yield, which is very solid given goeasy's attractive growth trajectory.

Equitable Group

Equitable Group (TSX:EQB) is a Toronto-based alternative lender. Similar to other housingdependent lenders, Equitable Group stock fell sharply in the spring of 2017. However, shares have bounced back nicely, and the company has posted impressive earnings in the face of a challenging real estate landscape. The stock had increased 18.3% in 2019 as of close on June 12.

The company released its first-quarter 2019 results on May 9. Adjusted diluted earnings per share rose 16% from the prior year to $2.72, occurring on the back of 25% growth in its retail loan principle outstanding to $13.4 billion. Equitable Group has posted strong originations even as sales have broadly plummeted in Canada’s top housing markets.

The company has credited its branchless customer service approach for invigorating its mortgage portfolio. Equitable Group reported $31 billion in Assets Under Management at the end of the first quarter.

Shares of Equitable Group boasted a forward P/E of 6 as of this writing. It looks like an attractive value play relative to industry, and there is reason for optimism with the Canadian housing market looking more balanced as we look ahead to 2020. The company last announced a quarterly dividend of $0.31 per share, which represents a modest 1.7% yield.

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Date
2025/07/17
Date Created
2019/06/16
Author
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