



Investors: This Little-Followed Financial Stock Could Make You Rich

Description

I firmly believe successful investing is based on being able to look towards the future.

The problem is two of the most popular methods of investing focus on the past. Dividend-growth investing puts a lot of emphasis on what a company has done before, believing it can replicate that success indefinitely.

While there's no doubt that this often works, sometimes a company will become a sexy dividend growth investment right when it reaches its peak.

Then there's value investing, which is even more guilty of looking toward the past. Often, the entire thesis of a value stock is a company used to be great, so it can return to some form of that greatness with just a few changes.

I like to look at investing another way. I want to buy companies with a bright future. Sure, I want to be paid dividends while I wait and I insist on paying a reasonable valuation, but without that growth potential, I'm not very interested.

Let's take a closer look at a stock I've recently purchased, a company that I believe is well positioned to capitalize on a fundamental shift in Canada's mortgage industry.

The rise of the broker

For the average Canadian, the choice should be obvious. When it's time to get a mortgage, the far better choice is a mortgage broker.

A broker can give you mortgage quotes from dozens of different lenders, although one of the dirty little secrets of the business is most brokers only use a handful of lenders who specialize in different types of loans.

The broker can put a well-qualified borrower into the mortgage with the best rate, while using their

expertise to find suitable mortgages for borrowers with a bruised credit history.

Compare that to going to a bank, especially for folks who aren't very financially savvy. They're stressed out about being able to qualify for a loan to begin with, so they're happy to take whatever lackluster product the bank offers them.

Then, come renewal time, these folks just go with the same lender. They don't even shop the market.

Canada's mortgage brokers are also doing a great job of embracing technology, whether it's being used to communicate with clients or speed up the loan approval process.

Lenders are responding to this increased efficiency by offering brokers lower rates, which translates into big savings for customers.

The opportunity

First National Financial Corp ([TSX:FN](#)) is the largest non-bank player in the fragmented mortgage broker market, commanding a 13% market share according to a recent survey.

First National stands out by offering rock-bottom rates to borrowers, good service to brokers, and conservative underwriting, which appeals to the investors who ultimately end up buying First National's mortgages.

The business works like this. First National funds properties by raising capital. It either borrows money and then lends it out, or it acts as a middleman between a mortgage borrower and investors who want to put their capital into Canadian mortgages. The company then collects a fee for servicing the loan. It's been a good business to be in.

First National has \$109 billion in mortgages under administration, making it the largest lender in the country outside of Canada's five largest banks.

Earnings per share have essentially doubled over the last decade, and that's even after 2018 was a bit of a lackluster year.

Results have been good thus far in 2019, too. Mortgages under administration are up 6%. Revenue has increased by 15%, while earnings are about the same as last year. Decreasing interest rates are not good for a mortgage lender, but this headwind should settle down soon.

Finally, First National investors are paid a generous dividend. The current yield is 5.5%, and the company has increased its dividend annually since 2016. Additionally, First National has also [paid special dividends](#) in both 2017 and 2018; the latter was for \$1 per share.

The bottom line

First National shares [are up more than 450%](#) over the last decade if you reinvested your dividends. The next decade is shaping up to be equally as good. Will you be left on the sidelines as this proven compounder continues to do its thing?

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