1 Stock to Sell as Housing Roars Back

Description

When this year began, I'd discussed why Canada housing was in a good position to receive a boost. The first reason was a concerted push by top lenders to lower mortgage rates ahead of the busy spring season. Sales have improved dramatically in the spring and summer of 2019, especially in major metropolitan areas.

This improved environment inspired **Royal Bank** senior economist Robert Hogue to declare that "the recovery is on" in Canada housing. This was in response to July sales numbers from the Canadian Real Estate Association (CREA) that showed a 3.5% increase from the month of June. This marked the fifth consecutive month of rising sales.

In June, I'd explained why investors should trust Canada housing in the second half of the year. The balanced market we are seeing in the late summer is encouraging as we approach the fall. Moreover, Canada just reported a better-than-expected economic growth rate in the second quarter, and the results of the upcoming election should work to ease minds who are worried about potential shake ups.

Today, I want to look at one housing-linked stock that has soared to 52-week highs, partially on the back of this renewed optimism.

Equitable Group (TSX:EQB) is a Toronto-based alternative lender. Shares have soared 68% in 2019 as of close on September 4. The stock has spiked 44% over the past three months on the back of a record second-quarter earnings report.

In the second quarter, Equitable Group reported adjusted diluted earnings per share of $3.18. This was a record for the company and represented a 31% jump from the prior year. Retail loan principal outstanding rose 23% year over year to $16.9 billion and commercial loan principal outstanding increased 19% to $7.9 billion. Deposits at Equitable Bank climbed 18% to $14.5 billion.

The company achieved these record results on the back of improved customer onboarding and the execution of its growth strategy in its retail and commercial business. Favourable conditions in the broader market have contributed to its success, but Equitable Group also put together a strong 2018 in a tougher environment. It is projecting loan growth between 12% and 14% year over year and earnings growth between 15% and 17%.

Equitable Group also declared a quarterly dividend of $0.33 per share in Q2 2019, which represents a modest 1.3% yield. The company has achieved dividend growth for eight consecutive years.

Why is Equitable Group a sell today?

With all this good news on tap, why is Equitable Group a sell? After all, it still boasts a favourable price-to-earnings ratio of 9.2 and a price-to-book of 1.2. Shares have been on a tear in the summer, but if I'm a shareholder I'm looking to cash in this month. The stock currently possesses a Relative Strength Index of 71, which puts it in technically overbought territory. It has been at these dangerous levels since its post-earnings bump.

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