1 Huge Change That Will Make Canada Housing SOAR in 2020

Description

At the beginning of this year, I'd discussed some of the reasons I thought Canada's housing market was about to get its second wind in what has been a prolonged bull run. A potent cocktail of high immigration, low supply, and cheap credit looked to be a recipe that would keep prices on the rise and sales increasing at a steady pace.

Canada reported its best January for home sales since 2008, according to the Canadian Real Estate Association (CREA). The average price of a Canadian home that sold in January was $504,350, which was up 11.2% year over year. This is significant, as January is a historically slow month for home sales. The CREA reported that two-thirds of all markets saw an increase in activity.

The Canadian housing market may just be getting warmed up in January, as the federal government is taking steps to ease up on regulations that were put in place to cool the hot market in 2017. In January 2019, I'd predicted that the federal government would take steps to make things easier on prospective buyers.

On February 18, Finance Minister Bill Morneau announced that the government would ease the stress test for insured buyers. It will do this by decreasing the threshold a customer needs to qualify for an insured mortgage. The changes will take effect April 6.

Housing stocks continue to roar

As Canada's housing market has bounced back, so have top housing-linked stocks.

Home Capital is one of the top alternative lenders in Canada. The company was on the verge of a catastrophic meltdown in 2017 but was ultimately rescued with some help from famed investor Warren Buffett. It underwent significant internal restructuring, and investors who bought the dip have been richly rewarded. The stock has climbed 96% over the past year as of close on February 19.

Investors will have caught Home Capital's Q4 and full-year results for 2019 by the time of this article's publication. Before its earnings release, Home Capital stock boasted solid value, even as it hovers around a 52-week high. Shares last possessed a price-to-earnings (P/E) ratio of 14.7 and a price-to-book (P/B) value of one.

Equitable Group (TSX:EQB) was always my preferred pick of these two alternative lenders. This company remained stable in the face of major turbulence in 2017, and it posted impressive results in a challenging market in 2018. Even better, Equitable Group also offers a little bit of income for its shareholders. Its stock had climbed 64% year over year at the time of this writing.

Investors can expect to see this company's fourth-quarter and full-year results for 2019 on February 24. In the year-to-date period at the end of Q3 2019, Equitable Group had reported net income of $150 million compared to $125 million in the prior year. Diluted earnings per share had also climbed to $8.75 over $7.33 in the first nine months of 2018.

Like Home Capital, Equitable Group also possesses a favourable P/E ratio of 9.7 and a P/B value of 1.3. It last increased its quarterly dividend to $0.35 per share, which represents a modest 1.3% yield.

Bet on Canada housing in the near term

Canada's housing market may be inflating at a troubling pace once more, but investors can reap the rewards for the time being. These two alternative lender stocks are well positioned to build on momentum in a frothy market.

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Date
2025/08/17
Date Created
2020/02/22
Author
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