Will the COVID-19 Pandemic Cause a Canada Housing Crash?

Description

The COVID-19 pandemic has had a profound impact on many sectors of the economy. Airliners, restaurants, and other elements of the hospitality industry have taken the hardest hits. Canada housing is something of a wild card. The real estate market largely recovered in 2019 and started well this year. However, a halt in face-to-face real estate activity has grinded this sector to a halt.

As it stands today, broad sections of the Canadian economy are gradually re-opening. However, will the long-term impacts of this huge crisis prevent a snapback for the Canada housing market? Can investors trust alternative lender stocks? Let's dive in.

Canada housing fundamentals are still strong

Back in April, I'd discussed a scenario in which the Canada housing market took a sharp tumble. This would involve cratering demand, a spike in defaults, and then presumably a significant price correction. As before, major metropolitan areas would be the worst affected. This outlook is not the one I've adopted in 2020.

Later in April, I'd suggested that investors should consider buying the dip in Canada housing. Activity has stalled, but demand is still very strong in Canada's major cities. The national average home price fell just 1.3% in the turbulent month of April, according to the Canadian Real Estate Association (CREA). This illustrates how resilient home prices have been, even in the face of the worst financial crisis since the Great Recession.

Construction has suffered a small dip in activity with some new projects put on hold. Housing supply is already far behind demand, and this trend will continue in the early part of this decade.

Two alternative lenders to watch

Alternative lending stocks have predictably taken a hit due to much softer sales in the Canada housing market. However, these companies could enjoy a rebound in the summer.

Home Capital Group is one of the top alternative lenders in Canada. Shares have dropped 48% over the past three months as of early afternoon trading on May 19. The stock last had a favourable price-to-earnings (P/E) ratio of 7.4 and a price-to-book (P/B) value of 0.5.

In the first quarter, Home Capital saw adjusted net income fall 22% year over year to $29.9 million. Mortgage originations were flat over the previous year. Home Capital looks undervalue and boasts a fantastic balance sheet.

Equitable Group stock has dropped 50% in a three-month span. It released its Q1 2020 earnings on May 13. Adjusted diluted earnings per share fell 38% from the prior year to $1.70. However, deposits were up 6% year over year to $15.5 billion as at March 31, 2020.

Moreover, the board of directors still declared a quarterly dividend of $0.37 per share. This represents a 2.7% yield. Shares boast a very attractive P/E ratio of five and a P/B value of 0.6. This is an enticing Canada housing stock to add on the dip and one that offers a bit of income as well.

The economy is re-opening

Progress may be slow, but Canadian provinces are moving forward with a full re-opening. This is great news for a stalled Canada housing market. Investors should be patient and look for value that still exists with stocks like Home Capital and Equitable Group.

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