Now Is the Time to Buy These Canada Housing Stocks!

Description

When this year started, I'd explained why I was bullish on the Canada housing market. The housing industry had passed through a tough challenge in 2017 and 2018. Sales activity was humming along nicely into the early part of the year, and demand was as high as ever. However, the COVID-19 pandemic slammed the brakes on the burgeoning housing sector.

Despite this, housing prices have remained relatively robust in the face of this historic crisis. That is not to say that there are not significant risks, chief among them the financial stability of many Canadians. Today, I want to discuss why Canada housing is well positioned to roar back with the rest of the economy. Moreover, I want to pinpoint two Canada housing stocks that are worth your attention.

Why Canada housing is primed to rise

Earlier this month, I'd discussed whether new lending rules would have a negative impact on Canada's housing market. The CMHC recently announced that it would prohibit the use of borrowed funds for a down payment. It will also introduce more draconian credit score prerequisites.

The CMHC predicts that Canada's major cities will experience declines in housing starts, sales, and price growth in 2020. However, it conceded that the environment is still highly unpredictable. What we do know is that high demand and low supply will remain a constant for Canada housing. These are still bullish conditions going forward.

Provinces are pursuing economic reopening, which will also jump start real estate. Prices are expected to rebound in Toronto, Montreal, and Ottawa by the end of this year.

Two alternative lender stocks to scoop up this summer

Alternative lenders faced a crisis in 2017. However, the slump in Canada housing was short lived. Those who bought the dip in these top two lenders have been rewarded over the past three years.Now is a good time to consider stashing these stocks as real estate is set to resume normal activities.

Equitable Group (TSX:EQB) is one of the top alternative lenders in Canada. Shares of Equitable Group have dropped 32% in 2020 as of close on June 23. However, the stock has spiked 59% over the past three months.

The company released its first-quarter 2020 results on May 13. Like Canada's top banks, Equitable Group saw its provisions for credits losses climb to $35.7 million. Adjusted diluted earnings per share fell 38% year over year to $1.70. However, its Retail and Commercial loan principal outstanding still recorded growth compared to Q1 2019.

In Q1 2020, its board of directors declared a quarterly dividend of $0.37 per share. This represents a 2% yield. Shares of this Canada housing stock last possessed a very favourable price-to-earnings (P/E) ratio of 6.6 and a price-to-book (P/B) value of 0.9. Equitable Group stock looks like an attractive buy right now.

Home Capital Group (TSX:HCG) sat on the brink of destruction in the spring of 2017. However, with some support from Warren Buffett, the company persevered. Home Capital stock is down 36% so far in 2020. The stock has increased 44% over the last three months.

In the first quarter, the company reported adjusted net income of $29.9 million or $0.56 per share — up 14.3% from Q1 2019. Mortgage originations came in at $1.62 billion, which was flat from the fourth quarter of the previous year.

This Canada housing stock last had a favourable P/E ratio of 8.9 and a P/B value of 0.7. It does not offer a dividend but does boast an excellent balance sheet. Both Canada housing stocks look undervalued as we move into July.

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1. TSX:EQB (EQB)
2. TSX:HCG (Home Capital Group)

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