Canada Housing Is Back! 3 Stocks to Buy Now

Description

If there's one thing investors should have learned over the past decade, it's to never count out the Canada housing market. Back in early June, I'd discussed whether new lending rules would poke a hole in the real estate rebound. The CMHC banned the use of borrowed funds on a down payment starting July 1. Moreover, the housing authority will also require better credit scores from borrowers.

Many Canadians may have thought that the economic downturn would present an opportunity to jump into a cooler market. However, the Canada housing rebound has materialized faster than even its biggest boosters could have anticipated.

Why Canada housing has bounced back quickly

Canada housing looked very strong to start 2020. Sales were ramping up in major cities, and prices had steadily increased since they took a hit during the correction in 2017. The COVID-19 pandemic had virtually shuttered housing activity across the country. However, the reopening has seen activity ramp up to start the summer.

Inventories have remained low in major metropolitan areas in Quebec and Ontario. Zoocasa, a top real brokerage and online service, has said that these remain sellers' markets. Consistently low supply and high demand has continued to underpin housing in these provinces. This was one of the reasons I'd suggested investors should jump into housing stocks in late June.

Two alternative lenders to buy in July

Home Capital Group is a top alternative lender in Canada. The company was on the verge of ruin in the spring of 2017 before receiving much-needed support from Warren Buffett. Shares of Home Capital have dropped 40% so far in 2020. However, the Canada housing stock is up 38% over the past three months.

In Q1 2020, Home Capital reported mortgage origination of $1.62 billion — flat from Q4 2019. Adjusted net income fell 22.2% to $29.9 million, or $0.56 per share. Home Capital stock last possessed a price-to-earnings (P/E) ratio of 8.3 and a price-to-book (P/B) value of 0.6. This puts Home Capital in favourable value territory. Moreover, it boasts a fantastic balance sheet.

Equitable Group is another alternative lender worth watching right now. Its shares have dropped 35% so far this year. The stock is up 40% over the past three months. In the first quarter of 2020, the company saw adjusted diluted earnings per share fall 38% to $1.70. However, the board of directors maintained its quarterly dividend of $0.37 per share. This represents a 2.1% yield.

Shares of Equitable Group possess a very favourable P/E ratio of 6.3 and a P/B value of 0.8. Coupled with its dividend, this is a Canada housing stock that looks like a great value pick today.

My top Canada housing stock for the rest of 2020

Genworth MI Canada (TSX:MIC) operates as a private residential mortgage insurer in Canada. Its stock has increased 21% over a three-month span. Shares are still down 33% in 2020. This Canada housing stock offers stability and a rock-solid dividend.

In Q1 2020, Genworth reported net operating income of $117 million. This was up 4% from the previous quarter. The larger transactional mortgage originations market drove growth in its new insurance written. Genworth stock last had a P/E ratio of 6.7 and a P/B value of 0.8. This indicates that its shares are undervalued today.

Meanwhile, Genworth also announced a quarterly dividend of $0.54 per share. This represents a tasty 6.7% yield. Genworth has delivered dividend growth for 11 consecutive years.

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