



1 TSX Residential Lender Just Reported a Great Quarter and Pays a 6.8% Dividend

Description

Residential mortgages are generally a good bet. Even as the pandemic continues in the rest of the world with an economic recession in progress, mortgages are the last piece of debt that people will default on.

First National Financial Corporation ([TSX:FN](#)) is Canada's [largest non-bank originator](#) and underwriter of mortgages lender that focuses mainly on the residential space. It has almost \$115 billion in MuA (mortgages under administration) and is one of the top three players in the mortgage broker distribution channel.

The company reported its results for the second quarter of 2020 and revenue was up 3% to \$344.6 million from \$335.2 million in the prior-year period. Net income was \$69.8 million compared to \$44.2 million in 2019. New mortgage originations were up 2% to \$6.6 billion from \$6.5 billion in 2019 and total mortgage renewals were up a whopping 19% to \$2.5 billion compared to \$2.1 billion.

Other major reported numbers that went up are placement fees that increased 47% to \$88.7 million, mortgage servicing income rose 5% to \$41 million, and gains on deferred placement fee revenue increased 124% to \$6.5 million.

The pandemic did affect the company with net interest revenue earned on securitized mortgages dropping 39% to \$21 million and mortgage investment income decreasing 22% to \$17 million due to a lower interest rate environment because of COVID-19.

At \$2.1 billion, commercial mortgage originations took a hit of 17%. Commercial segment mortgage renewals fell by 23% to \$510 million.

MuA increased 5% to a record of \$114.9 billion compared to \$109.6 billion in the same period in 2019.

Merlin's magic

First National's business model works on systems that don't depend on face-to-face interactions. As the pandemic caused First National's competitors to slow down, the company expanded its market share.

The company credits the increase in renewals to its underwriting system to a technology called Merlin, its underwriting system, enabling brokers to track the status of their customers' mortgages in real-time. It enables First Nation to provide and continue financial services without the need of having to meet each other in person. Second-quarter single-family mortgage originations were \$4.5 billion, \$600 million more than 2019.

First National reported a dividend of \$0.1625 for July, taking its forward payout to \$1.95 for the year, a forward dividend yield of 6.8%. This means a \$10,000 investment in First National will generate \$680 in annual dividend payments.

The company has increased its dividend for the last eight consecutive years and has a five-year growth streak of 5.8%. It remains a very good buy for people who want a consistent income during tough times.

The stock was trading at \$38 in February this year and is currently up 15% from those levels. I [had written about the stock in June](#) and had advised a buy on the stock. I stand by the recommendation given its low valuation and huge presence in Canada.

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