Income Investors: $10,000 in This TSX Stock Will Pay You $576 in Annual Dividends

Description

Canada's largest private residential mortgage insurer, **Genworth MI Canada** (TSX:MIC) reported its results for the second quarter of 2020 and the numbers beat analyst estimates handsomely. Net operating income came in at $101 million, down 16% over the same period in 2019 and 14% over Q1 2020.

Earnings per share were $1.17, down 15% from 2019, and 13% from Q1 of 2020. Comparatively, analysts forecast the company's earnings at $0.89 in the June quarter.

Genworth's insurance business saw good growth with total premiums written rising 17% from 2019 to $227 million. The company says, "The growth in portfolio insurance premiums more than offset the decline in transactional insurance premiums resulting from the COVID-19 environment and related economic shutdown."

Encouraging outlook for this dividend stock

The mortgage market slowed down during April and May but has experienced a strong pick-up in June and July. First-time buyers who are sure about their jobs are taking advantage of lower interest rates and buying during the dip.

A press release by the Toronto Regional Real Estate Board said that the Greater Toronto Area set a new sales record for July. The area reported 11,081 sales in July 2020, a 29.5% increase over July 2019 and up 49.5% cent compared to June 2020.

“Sales activity was extremely strong for the first full month of summer. Normally we would see sales dip in July relative to June as more households take vacation, especially with children out of school. This year, however, was different with pent-up demand from the COVID-19-related lull in April and May being satisfied in the summer, as economic recovery takes firmer hold, including the Stage 3 re-opening,” said TRREB President Lisa Patel.

Genworth has said that if the trend continues the company will see a “positive impact on new insurance written in the second half of the year.”

Potential increase in market share

In June, Canada Mortgage and Housing Corporation (CMHC) announced a number of measures that were implemented from July 1 that would reduce the scope of mortgages it would provide default mortgage insurance on. These include the elimination of non-traditional sources of down payments as well as requiring mortgages to have a minimum credit score of 680, compared to the prior minimum score of 600.

Genworth has said that it won’t be implementing these changes in its system as “Non-traditional sources of down payment and loans with a maximum credit score below 680 represent a very small proportion of our in-force portfolio and within our risk appetite limits.” The company expects its market share to increase over the next few quarters as a result of not implementing these changes.

Genworth expects a U-shaped recovery curve starting in the second quarter. Early signs of recovery can be seen as the level of mortgage deferrals declined to just below 14% at the end of June compared to almost 20% at the start of the second quarter.

The Foolish takeaway

I had written about the stock last month, recommending a buy on the stock when it was trading at $33.64. The stock currently trades at $36.72, just 4% shy of $38.2, the target price that analysts have set for it. It’s not a stock that you buy for its current growth prospects.

It’s a stock that you buy for the 6% forward yield. As regions open up and the economy improves across Canada, the target price of Genworth will also start moving up. This is a good stock to hold in your portfolio. An investment of $10,000 in Genworth stock will generate close to $600 in annual dividend payments.

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