2 Top TSX Mortgage Lenders You Should Buy for September

Description

According to data from Canada Mortgage and Housing Corporation (CMHC), the trend in housing starts was 204,376 units in July 2020. This was higher than the 199,778 units in June 2020 and increased for the second consecutive month.

According to CMHC's chief economist, "Higher multi-family starts in major urban areas, including Toronto, Vancouver and oil-producing centres in the Prairies drove the national increase. Following declines in previous months from COVID-19 measures, higher activity in June and July leaves the trend in housing starts in line with the long-run average level of housing starts."

CMHC expects national starts to trend lower in the short-term driven by the economic impact of the COVID-19 pandemic. However, Canada's real estate market has been on an upward trend for several years now. The prices in Q1 of 2020 were up 3.4% year over year compared to a 3.3% decline south of the border.

Further, Canada's average housing prices in the last 15 years are up almost 90%. Given the recent rebound in housing starts, it makes sense to bet on the country's top mortgage lenders right now.

First National Financial has a dividend yield of 5.6%

First National Financial (TSX:FN) is Canada's largest non-bank provider of single-family residential mortgages. It offers a portfolio of mortgage solutions and works with the broker channel to provide personalized solutions.

First National Financial stock is trading at $34.66, which is 23% below its 52-week high. This means its dividend is now yielding a tasty 5.63%. So, a $10,000 investment in FN stock will generate $563 in annual dividend payments.

The company has approximately $115 billion in mortgages under administration (MuA) and it reporteda strong June quarter as well. The company's sales were up 3% at $344.6 million while net incomegrew 58% year-over-year.

Its new mortgage originations rose 2% to $6.6 billion and mortgage renewals rose by a significant 19% to $2.5 billion in Q2. While the residential business performed well, it was offset by a weak performance in the company's commercial mortgage segment.

First National Financials' commercial mortgage originations fell 17% while renewals were down 23% year-over-year. FN has been a top-performing stock for a while and has managed to outpace giants such as the **Royal Bank of Canada** and **Toronto-Dominion Bank** in the past decade.

Equitable Group is up 50% in the last five years

Equitable Group (TSX:EQB) is a Canadian financial service business that operates through its wholly-owned subsidiary, Equitable Bank, which has grown to become Canada's ninth largest independent Schedule I bank. Equitable Bank also focuses on providing residential lending, commercial lending, and savings solutions to Canadians.

While EQB stock is trading 33.6% below its 52-week high, it is up 50% in the last five years. Further, the stocks' forward yield of 1.83% might seem too enticing for income investors, however, it has increased dividends by 85% in the last four years.

Equitable Group is valued at a market cap of $1.36 billion and is trading at a forward price to sales multiple of 3.4 and a price to earnings multiple of 7.5. The stock seems grossly undervalued looking at its 5-year earnings forecast of 24.4% and a 5-year PEG ratio of 0.3.

CATEGORY

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1. TSX:EQB (EQB)
2. TSX:FN (First National Financial Corporation)

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