TFSA Investors: Buy 2021’s Cheapest Value Stock Now

Description

Genworth (TSX:MIC) is the largest private sector residential mortgage insurer in Canada and has been providing mortgage default insurance in Canada since 1995. The company has built a broad underwriting and distribution platform across the country that provides customer focused products and support services to the majority of Canada’s residential mortgage lenders and originators.

Today, the company employs approximately 275 people across Canada and underwrites mortgage insurance for residential properties in all provinces and territories of Canada. Genworth has the leading market share among private sector mortgage insurers.

The company is very attractively priced, with a price-to-earnings ratio of just 9.22, a price-to-book ratio of 1.01, and market capitalization of $3.76 billion. Debt is very conservatively used by Genworth, as evidenced by a debt-to-equity ratio of just 0.19. The company has excellent performance metrics with an operating margin of 71.57% and a return on equity of 10.91%.

Genworth is an industry leader in maintaining prudent mortgage lending practices. This has led to a high degree of loan accessibility for Canadian consumers, competitive mortgage rates, and requirements and incentives for lenders to maintain solid underwriting disciplines. This has contributed to high levels of home ownership and a relatively stable housing market in Canada.

Further, Genworth’s strong economic moat makes the company well positioned to take advantage of Canada’s housing finance system which is one of the most efficient and stable in the world. The success of Canada’s housing finance system is made possible, in part, by government policies that rely on mortgage insurance to promote sustainable home ownership.

Genworth plays an important role in Canada’s housing finance system as evidenced by the requirement that all financial institutions that are federally regulated must purchase mortgage insurance in respect of a residential mortgage loan whenever the amount of the loan exceeds 80% of the value of the collateral property at the time of loan origination.

The risk of Genworth’s business model is reduced due to the federal government’s explicit guarantee to approved mortgage lenders of the original principal amount of an insured loan, in the event of bankruptcy or insolvency.

Genworth benefits from the mandatory requirement for mortgage insurance, coupled with sound capital regulation of lending institutions as well as private sector mortgage insurers. In accordance with regulatory capital requirements, lenders are permitted to hold reduced capital for credit risks on eligible mortgages.

The company is well diversified by a variety of products in transactional and portfolio insurance. Transactional mortgages represents 57% of the company's aggregate insured mortgages outstanding and portfolio mortgages represents 43% of insured mortgages outstanding.

The company's only competitors are Canada Mortgage and Housing Corporation (CMHC), a Canadian Crown Corporation, which is subject to federal regulatory oversight and Canada Guaranty Mortgage Insurance Company, a private mortgage insurer. This lack of competition is a huge advantage to Genworth, and will allow it to grow fast as new immigrants purchase Canadian residential real estate. The company is run for the long term.

In summary, Genworth's solid balance sheet, strong fundamentals and inexpensive valuation will allow it to provide outsized future returns to shareholders as the industry consolidates.

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Date
2025/07/22
Date Created
2021/01/14
Author
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