ALERT: This Financial Stock Could Be Significantly Undervalued

Description

Genworth MI Canada (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. The company employs approximately 280 people across Canada.

Further, the company underwrites mortgage insurance for residential properties in all provinces and territories of Canada and has the leading market share among private sector mortgage insurers. Canada Mortgage and Housing Corporation (CMHC), a Crown Corporation and Canada Guaranty Mortgage Insurance Company, is the company's major competitor. As of December 31, 2020, Genworth MI Canada had $7.5 billion in total assets and $3.9 billion in shareholders' equity. In fiscal 2020, the company had net operating income of $461 million and an operating return on equity of approximately 13%.

Diverse product mix

The company's head office is located on leased premises in Oakville, Ontario. The company also has regional offices in Montreal, Québec, which employs approximately 25 people, and Vancouver, British Columbia, which employs approximately 11 people. The company also employs approximately 56 regional sales, risk, and underwriting employees located across Canada operating out of personal residences.

Transactional insurance represents about 91% of the company’s total premiums written and portfolio insurance represents 9% of Genworth’s total premiums written. Transactional insurance lenders are required to purchase mortgage insurance in respect of a residential mortgage loan whenever the loan-to-value ratio exceeds 80%. In some instances, lenders decide to insure mortgages that have a loan-to-value ratio below 80% on an individual basis. The company’s mortgage insurance covers default riskon mortgage loans secured by residential properties to protect lenders from losses on claims resultingfrom default on any type of residential mortgage loan instrument that the company has approved.

Improving access to homeownership

By offering mortgage insurance, the company plays a significant role in increasing access to homeownership for Canadian residents. Homebuyers who can only afford to make a smaller down payment can, through the benefits provided by mortgage insurers such as the company, obtain mortgages at rates comparable to buyers with more substantial down payments.

Also, the company reviews Genworth’s insurance in-force constantly to assess the nature and risks of the company’s portfolio. The dollar amount of Genworth’s insurance in-force does not take into account the value of the collateral underlying each mortgage. Upon a borrower’s default, the value of the collateral serves to reduce the company’s loss exposure. To the extent that home prices appreciate over time and the principal amount of the loan is paid down, the effective loan-to-value ratio of the company’s insurance written in a given year decreases.

Portfolio insurance to mitigate risk

Furthermore, the company also provides portfolio insurance to lenders with loan-to-value ratios of 80% or less. These policies are beneficial to lenders, as they provide the ability to manage capital and funding requirements and mitigate risk. The company views portfolio insurance as an extension of Genworth’s relationship with existing transactional customers. Therefore, the company carefully manages the level of portfolio insurance it underwrites relative to the overall insurance in-force.

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