This Reeling Housing Stock Is Worth Picking Up in Early February

### Description

**Home Capital** (TSX:HCG) is one of the top alternative lenders in Canada. In late 2021, I'd discussed the state of the Canada housing market coming into the new year. Today, I want to discuss whether this housing stock is worth snatching up in early February. Let's jump in.



## Why this housing stock has started slowly in the new year

This housing stock has dropped 8.5% month over month as of early afternoon trading on February 3. The stock is still up 17% in the year-over-year period. Last year, I'd discussed whether interest rate hikes would put a dent in the red-hot Canada housing market.

The Bank of Canada (BoC) refrained from raising rates in its January 26th policy meeting. However, investors should still expect upward moves in the months ahead. **Bank of Montreal** predicts that rate hikes will work to reduce "froth" in the housing market. Indeed, prices experienced a massive increase in 2021. Policymakers will need to work to combat soaring inflation that has put pressure on Canadian consumers. At the same time, central banks also need to balance a heavily indebted population.

## Can you count on Home Capital and the broader housing market in 2022?

Investors can expect to see Home Capital's fourth-quarter and full-year 2021 earnings on February 17. In Q3 2021, the company delivered adjusted net income of $56.0 million, or $1.10 per share. That is down from adjusted EPS of $1.44 in the prior year. Meanwhile, mortgage originations rose to $2.41 billion compared to $2.13 billion in the second quarter of 2021. Its total loan portfolio increased 2.3% year over year to $17.5 billion. Total loans under administration also jumped 2.3% to $23.3 billion.

In its outlook, Home Capital discussed predictions from the Office of the Superintendent of Financial Institutions (OSFI). It updated its expectations on capital distribution which opens the door for Home Capital to hike dividends from regulated entities.

Meanwhile, the OSFI released a troubling warning this past week. It projected that rate hikes could bring an end to the “speculative fever” that has dominated the Canada housing market in recent years. This could put housing stocks in a bind. Indeed, the OSFI estimated that housing markets could experience a correction in the 10-20% range. Investors will want to pay close attention to how markets react to the first set of rate hikes that are almost certain to arrive by the spring season.

## Should you buy this housing stock right now?

Home Capital managed to weather a very tough period in 2017 that saw Canada’s housing market experience sharp declines in sales and a moderate drop in prices. Shares of this housing stock last possessed a price-to-earnings ratio of 7.5. That puts Home Capital in very attractive value territory at the time of this writing. This housing stock last had an RSI of 34. That puts Home Capital right outside technically oversold territory.

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