Why EQB Stock Fell 13% Last Month

Description

The Canada housing market has been battered by a massive shift in central bank policy over the past several months. Inflation in Canada has climbed to heights not seen since the previous century, which spurred the Bank of Canada to take quick and decisive action. The benchmark interest rate has climbed to 3.25% — the highest point since before the 2007-2008 financial crisis. Canadian real estate markets had gorged on historically low interest rates and easy credit for over a decade. The rapid rate-tightening cycle has led to a sharp dip in sales and a steady decline in price.

Today, I want to look at how this has impacted a top housing stock **EQB** (TSX:EQB).

Canada housing: Why this stock and its peers have suffered in 2022

EQB is a Toronto-based company that provides personal and commercial banking services to retail and commercial customers in Canada. Shares of this housing-linked stock have plunged 13% month over month as of close on September 16. The stock is down 32% over the past year.

Bank of Montreal recently released a report that claimed the Canadian real estate market was being propped up by pre-approvals. That means summer buyers are still able to secure their preferred rate for the 90- to 120-day window. BMO predicts that there will be a shock when the next string of pre-approvals is subject to the rapid rise in interest rates. This tightening environment could lead to a “generational” shock for the housing market.

That is troubling news for EQB and its peers like **Home Capital**. **Royal Bank**, Canada’s top financial institution, also predicted that Canadian home prices will bottom out by the spring of 2023. It expects home prices to decline 20% from the peak in 2021.

Should investors believe in a rebound for EQB’s stock?

This company unveiled its second-quarter (Q2) fiscal 2022 earnings on August 9. Investors should keep in mind that this reflects the period ending June 30, 2022. Moreover, that same pre-approval effect could prop up EQB's earnings for the bulk of the third quarter as well.

In Q2 2022, EQB delivered conventional loan growth of 36% to $24.1 billion. Meanwhile, single-family alternative loans jumped 35% to $16.3 billion. EQB's assets under management (AUM) increased 21% to $45.8 million.

Adjusted earnings climbed 10% to $153 million in the first six months of fiscal 2022. Moreover, adjusted diluted earnings per share (EPS) also rose 10% to $4.40 in the year-to-date period. This strong first half of fiscal 2022 means that EQB is on track to meet its 2022 financial guidance. However, there are troubling storm clouds on the horizons for the housing market and the credit space that is dependent on its continued growth.

EQB: Is it worth buying on the dip?

EQB has put together a fantastic streak of performances in the last few years. Unfortunately, it is facing a stiff challenge in the form of this housing correction. Investors will need to weather the storm over the next year. However, that will also provide ample buying opportunities for stocks like EQB and its peers. Foolish readers should look to stack stocks on the dip.

Shares of EQB currently possess a very favourable price-to-earnings ratio of 5.7. Moreover, it offers a quarterly dividend of $0.31 per share. That represents a 2.5% yield.

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