Has the Housing Market Created an Opportunity to Buy This Stock?

Description

To obtain above market returns, it's critical for investors to buy shares in great companies that are severely undervalued. This approach creates asymmetric risk, which means the potential upside significantly outweighs the possibility of the stock price plummeting further.

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A common place to find these value opportunities are sectors in which investors are fearful, resulting in large sell-offs and causing stocks within these sectors to become cheap.

As of late, alternative mortgage lenders have felt the wrath of large sell-offs. The share prices of these companies plummeted in late April 2017 due to the **Home Capital Group Inc.** (TSX:HCG) investigation and investors' fear of a housing market correction.

However, with Warren Buffett's investment in Home Capital and his vote of confidence in the Canadian housing market, should investors be looking to this sector for value opportunities?

One company that investors might consider in this sector is **Equitable Group Inc.** (TSX:EQB). Here's a quick look at the company.

Overview

Equitable Group is the second-largest alternative lender in Canada. The company has grown its earnings by targeting smaller markets that aren't well served by the Big Five banks. This focus has resulted in its earnings growing by an annual average rate of 15.3% over the past seven years!

In addition, when the Home Capital debacle occurred, Equitable Group reported its impressive Q1 2017 earnings. The company generated a return on equity that was higher than the big banks while maintaining a low-risk lending profile.

Releasing record profits while a company's competitors are in crisis mode is generally indication of a great company.

Valuation

The company is currently trading at a price-to-earnings ratio of six and a price-to-book ratio of 0.96. Both are below the company's five-year averages of eight and 1.3, respectively. Therefore, investors won't have to overpay for a company with a strong history of earnings.

In addition, the company has grown its dividend by an annual average rate of 11.8% while maintaining a payout ratio below 12% over seven years. Although the yield is only 1.68%, the management team has demonstrated its ability to return earnings to shareholders, while staying well within the financial constraints of the company.

Foolish bottom line

In a market where it's tough to find undervalued companies with strong earnings, Equitable Group certainly presents a unique opportunity. Obviously, it would have been nice to acquire the stock when it dropped almost 40% in late April; however, it's still cheap based on historical earnings. I'm not rushing in at this point, but the company is definitely on my watch list.

Keep Foolin' around!

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