



Is it Time to Buy Home Capital Group Inc.?

Description

Home Capital Group Inc. ([TSX: HCG](#)), one of the largest financial institutions in Canada, released third-quarter earnings on November 5 and its stock has fallen more than 20% in the weeks since. Let's take a closer look at the quarterly results to determine if we should use this weakness as a long-term buying opportunity or if it is a warning sign to stay away.

Breaking down the third-quarter results

Here's a summary of Home Capital's third-quarter earnings compared to its results in the same period a year ago.

Metric	Reported	Year-Ago
Earnings Per Share	\$1.05	\$0.95
Revenue	\$255.05 million	\$239.43 million

Source: Home Capital Group

Home Capital's earnings per share increased 10.5% and its revenue increased 6.5% compared to the third-quarter of fiscal 2013. These strong results were driven by net income increasing 11% to \$73.76 million and net interest income increasing 10.3% to \$117.58 million.

Here's a quick breakdown of eight other key statistics and updates from the release:

1. Total assets increased 3.6% to \$20.56 billion compared to \$19.84 billion in the year-ago period.
2. Total loans increased 2.2% to \$18.49 billion compared to \$18.08 billion in the year-ago period.
3. Total deposits increased 17.5% to \$14.02 billion compared to \$11.94 billion in the year-ago period.
4. Net interest margin of 2.29% compared to 2.16% in the year-ago period.
5. Total mortgage originations increased 28.1% to \$2.55 billion compared to \$1.99 billion in the year-ago period.
6. Return on shareholders' equity of 22.0% compared to 24.3% in the year-ago period.

7. Efficiency ratio of 29.9% compared to 29.6% in the year-ago period.
8. Book value per share increased 21.3% to \$19.57 compared to \$16.14 in the year-ago period.

Lastly, Home Capital announced an 11.1% increase to its quarterly dividend to \$0.20 per share. The increase brings the company's annual dividend to \$0.80 per share and gives its stock a yield of approximately 1.8% at current levels.

Should you be a buyer of Laurentian Bank today?

Home Capital Group is one of Canada's largest holding companies and the growing demand for its mortgages led it to a very strong third-quarter performance. However, the market has not reacted positively, sending its stock over 20% lower in the weeks since and it now sits nearly 22% below its 52-week high of \$55.94 reached back in August.

I think the weakness in the stock represents a long-term buying opportunity, because at current levels, it trades at very inexpensive valuations — just 9.4 times next year's earnings estimates and only 2.2 times its book value per share. With these valuations in mind, I think long-term investors should consider initiating long-term positions in Home Capital Group today and adding to them on any further weakness provided by the market.

CATEGORY

1. Bank Stocks
2. Investing

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1. TSX:HCG (Home Capital Group)

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