Is Home Capital Group the Top Mid-Cap Financial Stock to Buy Today?

Description

Home Capital Group (TSX:HCG), one of the largest financial institutions in Canada, announced first-quarter earnings results after the market closed on May 6, and its stock responded by falling over 4.5% in the trading session that followed. The company's stock now sits more than 22% below its 52-week high, so let's take a closer look at the results to determine if now is the time to begin scaling in to a long-term position.

A growing asset base leads to top and bottom-line growth

Here's a breakdown of Home Capital Group's first-quarter earnings results compared with its results in the same period a year ago.

Metric	**Q1 2015**	**Q1 2014**
Adjusted Earnings Per Share	$1.03	$1.00
Adjusted Revenue	$249.23 million	$247.90 million

Source: Home Capital Group

Home Capital Group's earnings per share increased 3% and its adjusted revenue increased 0.5% compared with the first quarter of fiscal 2014. The company's solid earnings-per-share growth can be attributed to its adjusted net income increasing 3.7% to $72.29 million. Its slight revenue growth can be attributed to its net interest income increasing 5.5% to $113.12 million and its non-interest income increasing 7.6% to $27.09 million.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Total assets increased 1.1% to $20.51 billion
2. Total assets under administration increased 9.6% to $25.07 billion
3. Total loans increased 1.7% to $18.19 billion

4. Total loans under administration increased 11.1% to $22.74 billion
5. Liquid assets increased 13.7% to $1.83 billion
6. Deposits increased 12.7% to $14.64 billion
7. Shareholders' equity increased 20.1% to $1.49 billion
8. Net interest margin improved nine basis points to 2.28%
9. Adjusted efficiency ratio improved 190 basis points to 30.4%
10. Cash flows provided by operating activities increased 32% to $447.61 million
11. Book value per common share increased 18.9% to $21.18
12. Ended the quarter with $882.25 million in cash and cash equivalents, an increase of 144.6% from the beginning of the quarter

Home Capital Group also announced that it will be maintaining its quarterly dividend of $0.22 per share, and the next payment will come on June 1 to shareholders of record at the close of business on May 15.

Should you buy shares of Home Capital Group today?

I think the post-earnings weakness in Home Capital Group's stock represents nothing more than a long-term buying opportunity.

First, Home Capital Group's stock trades at just 9.9 times fiscal 2015's estimated earnings per share of $4.39 and only 8.7 times fiscal 2016's estimated earnings per share of $4.98, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 12.8. In addition, the company's stock trades at just 2.05 times its book value per share, which is inexpensive compared with its market-to-book value of 2.32 at the conclusion of fiscal 2014.

Second, Home Capital Group pays a quarterly dividend of $0.22 per share, or $0.88 per share annually, giving its stock a 2% yield at current levels. A 2% yield may not seem impressive at first, but it is very important to note that the company has increased its dividend 21 times in the last 10 years, making it one of the top dividend-growth plays in the market today.

With all of the information provided above in mind, I think Home Capital Group represents one of the best long-term investment opportunities in the financial sector today. Foolish investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. TSX:HCG (Home Capital Group)

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