



Could the Post-Earnings Rally in Home Capital Group Inc.'s Shares Continue?

Description

Home Capital Group Inc. ([TSX:HCG](#)), one of the largest financial institutions in Canada, announced second-quarter earnings results after the market closed on July 29, and its stock responded by soaring over 10%. The stock still sits more than 42% below its 52-week high of \$55.94 reached back in August 2014, so let's take a closer look at the results to determine if the rally could continue, and if we should consider beginning to scale in to long-term positions today.

The results that sent its shares soaring

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

Metric	Q2 2015	Q2 2014
Earnings Per Share	\$1.03	\$1.05
Revenue	\$250.88 million	\$255.45 million

Source: Home Capital Group Inc.

Home Capital Group's diluted earnings per share decreased 1.9% and its revenue decreased 1.8% compared with the second quarter of fiscal 2014. These weak results can be attributed to the company's traditional residential mortgage originations decreasing 15.4% to \$1.29 billion and its accelerator originations decreasing 54.9% to \$279.5 million compared with the year-ago period. This is primarily due to Home Capital Group suspending its relationship with approximately 45 individual mortgage brokers.

The company went on to state that it began to see an increase in originations near the end of the second quarter, and that it has taken several steps to improve origination volumes in the second half.

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

1. Net income decreased 1.9% to \$72.32 million
2. Net interest income increased 1.8% to \$117.21 million
3. Total assets increased 0.1% to \$20.52 million
4. Total assets under administration increased 7.3% to \$25.46 million
5. Total loans decreased 0.2% to \$17.98 million
6. Total loans under administration increased 7.9% to \$22.92 million
7. Deposits increased 8.8% to \$14.97 million
8. Liquid assets increased 2.8% to \$1.82 million
9. Shareholders' equity increased 17% to \$1.54 million
10. Efficiency ratio improved 390 basis points to 32.2%
11. Cash flows provided by operating activities decreased 47.9% to \$53.1 million
12. Book value per common share increased 16.7% to \$21.87

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 September 1 to shareholders of record at the close of business on August 14.

Should you buy in to or avoid the rally?

It was a fairly weak quarter for Home Capital Group, so I do not think the pop of over 10% in its stock was warranted. However, I do still think the stock represents a great long-term investment opportunity today because it trades at very inexpensive forward valuations and because it has a solid dividend yield with an extensive track record of increasing its annual payment.

First, Home Capital Group's stock still trades at just 7.7 times fiscal 2015's estimated earnings per share of \$4.19 and a mere 7.4 times fiscal 2016's estimated earnings per share of \$4.36, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 10.2 and the industry average multiple of 13.5.

Second, Home Capital Group pays an annual dividend of \$0.88 per share, which gives its stock a 2.7% yield at today's levels. The company has also increased its annual dividend payment for 15 consecutive years, including 21 increases in the last 10 years alone, making it one of the market's top dividend-growth plays.

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 strongly consider beginning to scale in to positions over the next couple of weeks.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date

2025/08/25

Date Created

2015/07/31

Author

jsolitro

default watermark

default watermark