



## Home Capital Group Inc. Is Now Absurdly Cheap

### Description

**Home Capital Group Inc.** ([TSX:HCG](#)) has always been a favourite among short sellers, and it's easy to see why. The company is the leader in the alternative mortgage market, and when looking at the Canadian economy's weaknesses, many are reminded of the U.S. mortgage meltdown in 2008.

Even more worrying, Home Capital stock plunged last July after a scandal that involved mortgage brokers.

And Home Capital's stock has only deteriorated from there. Now we're at the point where its shares have reached incredibly low levels.

### The big scandal

After an "external source" tipped off Home Capital about problems with some mortgage brokers, the company followed up with an internal investigation. During the investigation Home Capital confirmed that 45 brokers had helped mortgage applicants falsify income information. These brokers had accounted for \$960 million worth of loans in 2014, and \$1.9 billion overall—certainly a sizable chunk for a company with \$23.4 billion worth of loans on its books.

When the news first broke, Home Capital's stock sunk by more than 22% in just two days. Needless to say, investors were running for the exits.

The company cut ties with these brokers.

### The case against Home Capital

For years, Home Capital Group has been the stock people have shorted when betting against Canadian housing. And there's a compelling argument to make here. Not only are house prices at stratospheric levels, but consumer debt is at an all-time high and low oil prices are damaging the Canadian economy.

But there's a major problem with this argument. Home Capital has very limited exposure to Canada's

energy producing regions. In fact, these regions are home to only 4.2% of its uninsured loans. And these loans are actually performing better than average.

As for the broker scandal, Home Capital is constantly monitoring these mortgage loans for credit issues and hasn't found any yet. So far it looks like investors have overreacted, but only time will tell.

### **The shares are way too cheap**

Even if Home Capital runs into some problems, they are more than priced into the shares. In fact, the stock trades at just 5.4 times earnings, and this is for a company with an excellent track record and strong long-term growth potential.

I am one of Home Capital's shareholders, having bought the stock soon after the scandal last summer. And I am as confident as I've ever been.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:HCG (Home Capital Group)

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1. Investing

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