



## Is Home Capital Group Inc. Ripe for the Picking?

### Description

Looking at the shares of **Home Capital Group Inc.** ([TSX:HCG](#)), it's been a rough few months. The shares are down in excess of 30% from their high of almost \$40, which came near the end of April. It's now sitting at a price close to \$27, the question is, what happened?

The company is in the business of providing mortgage and lending solutions to the B-type of borrowers—essentially those who are not valued by the prime lenders. The company is willing to take a risk on clientele who are looking to improve their credit but still want to buy a home. The upside is the ability to command a higher rate of interest on their mortgages.

In the past few months, Home Capital Group has been the target of a number of news articles from short sellers in the United States calling for a U.S.-style housing collapse. The latest headwind faced by the company is the change in mortgage rules for Canadian lenders, forcing many of its competitors to close their doors or change their legal structure from being a simple lender to a chartered bank. Some will pull it off, while others may not be able to make it through the lengthy process or meet the requirements, giving Home Capital Group a greater share of the market.

Looking at Home Capital Group and how it's handled the challenges has been an interesting story to follow. The company has continued to focus on its core business and improve things for shareholders. Just this quarter, the dividend increased to \$0.26 per quarter—an increase from the previous \$0.24. Looking back to 2011, the CAGR (compound annual growth rate) of the company's dividend has been an astonishing 42.95%. How often do investors see this kind of growth?

The payout ratio has increased from 13.9% in 2011 to 21.6% in 2015. For the first three quarters of 2016, the payout ratio has been 24.7%. Clearly, it's still a very low ratio with further room for dividend growth.

### What is the company doing with the money it's retaining?

In 2015, Home Capital Group began buying back shares to the tune of \$6 million, increasing the buyback in 2016 to \$192 million in fiscal 2016 year to date. The reality is, company management is doing what is in the best interests of its long-term shareholders and silencing the short sellers in the

process. The Canadian and the American mortgage markets are very different.

Looking at the buyback, it's easy to understand why management would want to execute it. The tangible book value for Home Capital Group's shares is close to \$22.50. This is what may be called a "no-brainer" for management; decreasing the share count also translates to increasing the earnings per share along the way.

Looking forward, Home Capital Group, which is already one of the alternative-lending market leaders, will only continue to increase its presence. Keeping a close eye on the company will be essential to profit from its continued success.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

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