



## Picking Home Capital Group Inc. Over First National Financial Corp.

### Description

If we break down the key metrics of both **Home Capital Group Inc.** ([TSX:HCG](#)) and **First National Financial Corp.** ([TSX:FN](#)), we have a clear winner.

Several months ago, Home Capital Group was in the news, front and centre, as a number of U.S.-based investors decided shorting the stock was the right road to take in order to profit from a total demise in the Canadian housing market. The good news is, after a rough 2016, the company is still chugging along and may be ready to explode. Before we look into the company in more depth, we will first look at a competitor for comparison purposes.

#### First National Financial Corp.

With shares trading near 10 times earnings or price-to-earnings (P/E), investors may still be getting a bargain. A new buyer would be rewarded with a dividend of almost 6%, assuming the dividend is not raised or cut. Currently, the dividends account for 58% of earnings — a sustainable number. While the company has done a fantastic job of distributing profits to shareholders on a monthly basis, there has been no share buyback to speak of.

Shares outstanding have not moved in past few years. Currently, shares are trading near \$28.50 per share with a tangible book value per share of \$7.96.

If the Canadian mortgage market were to break down, there could be some downside exposure for shareholders.

#### Home Capital Group Inc.

The management have had to do a little more to show investors they are diligently carrying out their duties. With a lower dividend of only 3.5%, new shareholders will receive less income from their investment, but they may have less downside.

The tangible book value of Home Capital Group is an astonishing \$24.47 with shares trading at a price of approximately \$30. The downside from a tangible-book-value perspective is a lot less for

shareholders of Home Capital Group.

In addition to the dividend, the management have undertaken a share-buyback program which has reduced shares outstanding by almost 8% in the past year. It seems management believe in the company and in the Canadian housing market much more than the short sellers.

Trading at a price to earnings ratio of under eight times, shares of this company are a bargain. The company, which is the biggest alternative lender, is now in prime position to take over an even bigger part of their market due to the new mortgage rules which were recently introduced by the Canadian government. As a by-product to the new regulations, many smaller mortgage companies are no longer lending, while some consumers who were considered prime borrowers may now be exploring the offerings at a company like Home Capital Group.

With management clearly paying attention to the benefit of shareholders, shares may explode in 2016. Currently, the dividend-payout ratio is only 25%, leaving a lot of room for dividend increases.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:FN (First National Financial Corporation)
2. TSX:HCG (Home Capital Group)

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