



Home Capital Group Inc.: The New Dividend Kid on the Block

Description

After a tumultuous 2016, shares of **Home Capital Group Inc.** ([TSX:HCG](#)) are looking like a bargain. Trading at a trailing price-to-earnings ratio (P/E) close to eight times and offering a yield close to 3.5%, this security may just fit the mould for a number of investors.

While shares began 2016 trading at approximately \$25, a 52-week high of \$39.84 was the peak for the year. Following the high, a number of reports from short sellers arguing the Canadian housing market was going to collapse began circulating, and the company seesawed back and forth a number of times before finding support. Currently, the 10-day, 50-day, and 200-day simple moving averages (SMAs) are beginning to converge. Bouncing from a price of \$24 in October to \$32 at the turn of the year, shares are currently trading around the \$30 price point.

With fourth-quarter earnings announced just last week, the first metric investors can use to evaluate the company is the tangible book value. Taking assets minus liabilities, minus goodwill, we arrive at \$23.22 of tangible book value per share. There is clear value in the shares assuming we use the asset-based approach.

In tandem with fourth-quarter results, the company announced a quarterly dividend of \$0.26 per share, bringing the annual dividend to \$1.04 per share. The beauty of a company like Home Capital Group is the sustainability and past growth rate of the dividend. The dividend growth can easily continue.

Looking at the dividend in fiscal 2013, the total amount was \$0.54 per share, which translated to a dividend-payout ratio of 14.7%. The dividend-payout ratio was 15.7% in 2014, 21.6% in 2015, and 26.5% in 2016. The 2016 dividend totaled \$0.98, which translates to a compounded annual growth rate of 43.95%. Over the same period, earnings per share (EPS) increased from \$3.66 in 2013 to \$4.07 in 2015 to cool down in 2016. Total EPS in 2016 were \$3.70 in spite of a slowing Canadian real estate market.

As an investor, it is important to ask the question: "What am I giving (paying) and what am I getting?"

In the case of Home Capital Group, a new investor will pay approximately \$30 per share and receive \$23.22 in tangible book value per share in addition to a sustainable and growing dividend yield of

3.5%. The technical indicators are currently converging around the stock price, which often signals that a breakout is on the horizon. By undertaking a fundamental analysis, we can hopefully determine which way the breakout will occur.

Considering the current mortgage market in Canada, obtaining a mortgage is getting more and more difficult. With many of Home Capital Group's competitors having closed their doors recently, the company may be in prime position to benefit from being the largest alternative lender. Further, with fewer alternative lenders open for business, the company may be in even better position to offer a product at a competitive price to everyone in the transaction.

With RSP time upon us, many investors should seriously consider shares of Home Capital Group.

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