Higher Risk and Higher Reward With a 4% Dividend

Description

Over the past three months, shares of **Home Capital Group Inc.** (TSX:HCG) have traded down close to 20% as the company has been on the wrong end of a lot of bad press.

What is surprising in this situation is just how the stock has performed during different periods. The three-month return was negative 20%, but over the past month alone, the stock is down approximately 3%. During this period, shares experienced a one-day drop close to 10%.

For investors who missed the news, the CEO of Home Capital Group was fired due to the issues regarding the Ontario Securities Commission's (OSC) investigation of mortgages obtained fraudulently by approximately 45 mortgage brokers. These brokers have already been disciplined.

While this development doesn't put the company in positive light, investors should remember the issues at **Wells Fargo & Co** (NYSE:WFC) and, more recently, at Canada's Big Five banks. Although the events that made the headlines in each case were unsavory, the end result in each case was a resilient share price, or investors had the opportunity to enjoy a temporary dip in the share price. Buyers in both circumstances have done very well since.

In the case of Home Capital Group, it is worth noting the board of directors (elected by the shareholders) have stepped in and handled the situation by getting rid of the CEO. Shareholders seem to be well represented by the board, which is not always the case in corporate boardrooms.

Following the bad news, which hit the wire approximately two weeks ago, the market has continued to punish the company, sending shares under $25, nearing the 52-week low yet again.

Shareholders feeling the pain yet again need to be patient.

Investors sitting on the sidelines, however, may be beaming with pride if they were hoping to make an investment in the financials sector. At current levels, the company is paying a quarterly dividend of $0.26 per share; at a share price of $25, this translates to a dividend yield of 4.16%. Investors will be receiving a sustainable dividend with the opportunity for increases in the future.

For the most recent fiscal year, the total earnings per share were $3.70 which led to a dividend-payout ratio of 26.5%. While this is a healthy number, the fact of the matter is, the company has close to $1.2 billion in cash on the balance sheet, which can either be reinvested in the business, paid as dividends, or used in a share buyback.

With shares currently trading close to $25, the share-buyback idea may be the best option available. If we analyze the balance sheet, we find that dividing the book value by the number of shares outstanding will lead us to a book value number close to $25 per share.

The incredible upside to be had remains the earnings potential of the company. The market is offering this to investors for free!

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:WFC (Wells Fargo)
2. TSX:HCG (Home Capital Group)

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