Interesting Developments for Home Capital Group Inc.

Description

This past Friday, shares of alternative lender **Home Capital Group Inc.** (TSX:HCG) closed at a price of $9.14 per share. The one-day price movement was a decline close to 15.5%.

While the price decline for the day may be welcome news for short sellers, it is important to note the one-week change in price was actually significantly better than that. Over the five trading days last week, shares rose in value more than 50%.

Over the past week, a number of new developments have hit the news in regard to the solvency of the company. Most importantly, the company announced a transaction in which approximately $1.5 billion worth of mortgages would either be sold off or renewed with a third party, thereby alleviating Home Capital of the financial commitment to renew a number of mortgages.

Adding to the good news, the company has also announced quarterly earnings and updated investors on the ongoing liquidity question. Currently, the company has close to $1.6 billion in resources available for funding purposes. Out of the $2 billion line of credit previously entered, there is still $600 million available in addition to close to $1 billion in cash on the company's balance sheet. Liquidity is no longer an issue.

As most would assume (correctly), the company is in the process of shrinking the balance sheet to require less capital to fund the mortgages (assets) held by the company. Over time, the mortgages will either run off or be refinanced elsewhere. Let's not forget, a mortgage to the lender is like accounts receivable, which is money that will be received.

The bad news, which has yet to be addressed, is the availability of the company's guaranteed investment certificates and high-interest savings accounts through various brokerages. With many brokerages owned by Canada's largest banks (which also issue mortgages), no news was widely distributed announcing the cessation of any restrictions placed on the company's products.

Let's not forget that Home Capital and the run-off value in the share price is dependent on the company's ability to obtain funding at a reasonable rate of interest. Should Canada's largest financial institutions continue placing restrictions on a competitor's products, there may be no opportunity for a return to ongoing profitability.

Quarterly earnings

After reporting full earnings for the first quarter of 2017, there is still one key driver for investors. The company reported tangible book value per common share of $25.94 with approximately 64.2 million shares outstanding.

While investors purchasing shares at a current price of anywhere under $10 may be obtaining fantastic value, the truth is, the value will only be there if the company is successful in running off the current value of the mortgages and liquidating the “investments” listed on the balance sheet.

The faster the mortgages are sold of run off, the faster Home Capital will be able to cease borrowing money at a rate significantly higher than the market rate and hopefully return to profitability.

With more clarity being offered to investors every day, shares are still not for the faint of heart. With the possibility of a takeover by a more solvent institution (with lower borrowing costs), shares may still be worth a very good look.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date
2025/08/26
Date Created
2017/05/16
Author
ryangoldsman