



Looking at Shares of Home Capital Group Inc. and Beyond

Description

Last week, shares of **Home Capital Group Inc.** ([TSX:HCG](#)) rocketed to more than \$20 per share after the news that Warren Buffett of **Berkshire Hathaway Inc.** had taken a stake in the company and agreed to act as a financier for its day-to-day lending. The good news for investors is, the liquidity and the solvency issues have both been addressed.

Although there is still a significant amount of upside left for long investors of Home Capital Group, not every investor will be willing to invest in a company so soon after a major event which led to shares falling from a 52-week high of \$33.01 to a 52-week low of \$5.06. At this time, the company has yet to re-initiate the dividend, and earnings may still suffer until the temporary (high-cost) line of credit is repaid. Basically, the company is closer to getting out of the forest, but it's not quite there yet.

Given the makeup of the alternative lending business, there are other fantastic opportunities available to investors. Shares of **First National Financial Corp.** ([TSX:FN](#)) are still currently trading at less than \$27 per share and offering investors a dividend yield of almost 7%. Given the high dividend, price-to-earnings ratio of approximately eight times, and the dividend-payout ratio of 50% (for fiscal 2016), shares may be very attractive for many income-oriented investors.

The downside to purchasing shares of First National is that the tangible book value, which is lacking. In the case of Home Capital Group, there was clear value to be had with tangible book value well in excess of \$20 per share. First National's tangible book value is no more than \$8.86 as of March 31.

For investors looking for more value on the balance sheet, shares of **Equitable Group Inc.** ([TSX:EQB](#)) still have a lot to offer. Currently trading at close to \$63 per share, the dividend yield is no more than 1.5%, while the trailing price-to-earnings ratio is under seven times. Shareholders are obtaining shares on a relatively inexpensive basis.

To make things more attractive, the assets minus the liabilities (there is no goodwill) translates to approximately \$62 per share. Investors are getting equal value for every dollar deployed into the company. The upside is the continued earnings which will come from the ongoing operations of the company. Investors have a lot of upside to look forward to.

The alternative mortgage market has been quite eventful over the past few months, but investors still need to be diligent when making any investment. While shares of Home Capital Group still carry the highest risk, the flip side of that coin is that a potentially higher return could follow.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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Author

ryangoldsman

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