Home Capital Group Inc. Posts a Loss for Q2: Is the Stock Still a Bargain?

Description

Home Capital Group Inc. (TSX:HCG) released its second-quarter earnings in the first week of August, and it was the company's first quarter since it received a lifeline from Warren Buffett.

Home Capital's revenue from interest and dividends for the quarter was flat with a decline of less than $3 million from 2016. However, the company incurred a net loss of over $111 million this quarter compared to a profit of over $66 million in the prior year.

Increase in expenses

Home Capital saw its expenses increase as a result of the liquidity issues it has had this year. This includes interest the company paid on its line of credit which totaled $130 million in the second quarter. Other expenses that were up for the quarter included a loss of almost $73 million from an urgent sale the company had to make. In addition, other operating expenses doubled and added $25 million in costs for the quarter that were not incurred in the prior year.

Update on deposits and liquidity

Home Capital provided an update on its deposits and liquidity which showed that the company's total available liquidity and credit stands at just under $4 billion, which is more than double the $1.53 billion that was available just two months ago.

After initially declining in July, the company's high interest savings accounts are now up to $126 million, a 10% improvement from the end of June. Its deposits through Oaken Savings are also up over 18% from two months ago, representing an additional $29 million in funds. GICs have also increased just under 3% from June, and this has resulted in an extra $331 million being invested with the company.

Outlook

Although the company has paid off the line of credit it received, it has had to pay a premium on new deposits to attract more funds. This will result in a narrower spread for Home Capital, and Q3 will likely see lower interest income due to this.

Overall, it looks like consumers are coming back to Home Capital, and there is a bit more confidence in the company since the original crisis took place. Next quarter might still see some struggles as the company has had to shrink its margins, but with the line of credit paid off, the quarter should be an improvement over the current one.

Bottom line

Home Capital’s stock has taken a beating this year, dropping over 56% of its value, and may provide a good value investment for investors that are not afraid of the risk. As a result of the poor quarter, the company is now trading over 14 times its earnings and may be the bargain it was earlier.

However, with borrowing issues out of the way, it is reasonable to expect the company might return to profitability next quarter. It may take some time for investors to come back and trust the stock, but I believe, long term, it could present a good opportunity for growth. The company has already made strides this quarter in its recovery, and it is simply a matter of whether or not it can build on that progress in future periods.

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