



Is Callidus Capital Corp. Out of the Woods Yet?

Description

Callidus Capital Corp. (TSX:CBL) is one of those companies that has investors scratching their heads, after an independent report released in *The Wall Street Journal* alleged that four individual whistle-blowers have filed complaints with the Ontario Securities Commission (OSC), citing concerns about potential fraud within the Canada-based alternative lender. The report went on to state that a potential Toronto Police Service investigation may be underway, citing an unnamed source, indicating that the concerns held by these individuals may be much more serious than the company's management team has indicated.

With recent debacles impacting the Canadian alternative lending space and, more specifically, the stock prices of lenders such as **Home Capital Group Inc.** ([TSX:HCG](#)) and **Equitable Group Inc.** ([TSX:EQB](#)), speculation as to whether or not the article was the “dirty work” of short-sellers wanting to cash in on a short position has abounded.

Whatever the case, it appears that the alternative lending industry is coming under significant scrutiny by both investors and regulators, as housing prices continue to skyrocket in many major metropolitan areas throughout Canada amid moderate economic growth, increasing the risk of a bubble and ensuing backlash within the mortgage industry. While Callidus is mainly exposed to corporate lending, providing money to firms that may have difficulty receiving loans from traditional large banks in Canada and the U.S., the risks are similar. The market appears to be applying a significant risk premium to Callidus amid speculation that further investigation into the company's lending practices will lead to a negative outcome.

This speculation is causing more than one headache for Callidus's management team, whose publicly stated goal of taking the alternative lender private is now in jeopardy. With the company's current equity now being valued close to half of what it was at the beginning of this year, it is very unlikely that a bidder will come out of the woodwork to make an offer in management's expected range of \$18-22 to privatize the lender.

Bottom line

Callidus is a company with a significant amount of risk, much of which has been reflected in the year-to-date drop of nearly 45% in the lender's share price. Though much of Callidus's downside risk may already be baked in to the company's current share price, as we have seen with other alternative lenders in the North American market, during times of distress, the drops these firms can experience can be bottomless, making trying to time the bottom for a firm like Callidus a very risky play.

Stay Foolish, my friends.

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