



Why Home Capital Group Inc.'s "No" to Warren Buffett's Money Is Good News

Description

After getting a lifeline from Warren Buffett's **Berkshire Hathaway Inc.** almost three months ago, **Home Capital Group Inc.** ([TSX:HCG](#)) shareholders, on September 12, rejected his investment firm's offer to buy more of its shares.

Buffett's Berkshire needed shareholder approval to boost its stake in Home Capital. The move was part of a \$2.4 billion cash and stock deal that Home Capital Group struck with Buffett's firm in June, when the Canadian alternative mortgage lender was on the verge of collapse.

About 89% of shareholders voted against the proposal on concerns that it would dilute their holdings. Berkshire would have almost doubled its stake in Home Capital to 38.4% if the voters had accepted the offer.

Berkshire is already the alternative lender's largest shareholder, but it was seeking to buy a second tranche of shares at the deeply discounted price.

This change of heart on part of Home Capital Group's shareholders suggests how quickly the fortunes of this Toronto-based lender have changed since June, when it was near collapse and rescued by Buffett's firm.

Is the time right to buy Home Capital Group stock?

Investors in Home Capital Group shares have suffered huge losses this spring, as the company's shares lost over 60% of their value after the banking regulator found out that the company didn't disclose the scale of mortgage brokers' fraud, accusing the lender of misleading shareholders about falsified mortgage applications. Home Capital later settled with the regulator.

But now that its deposit base is strengthening, and the Canadian housing market-related worries seem to have been exaggerated, investors should take a second look at this lender, which has a large share of the non-bank lending market in Canada.

One encouraging factor that goes in the favour of those who are thinking of taking positions in this stock is that all the bad news about the company's financial situation and the overheated housing market in Canada have already been priced in. And it's likely that the move in Home Capital Group

stock from here is only up.

And that's probably already happening. In the past month, Home Capital Group shares have outperformed not only S&P/TSX Composite Index, but also other non-bank mortgage lenders. Its stock has gained ~10%, while shares of **Equitable Group Inc.**, for example, have barely budged.

Bottom line

For investors considering new positions in the Home Capital Group, the Sept. 12 vote has provided a good entry point. Voters' rejection of Warren Buffett's offer for a bigger stake strongly signaled that the company's financial position is strong enough that it can stand on its own.

In short, Home Capital Group is turning out to be a successful turnaround story, and this is the right time for the long-term investors to make the entry. Trading at \$14.38 a share at the time of writing, Home Capital Group is still more than 50% down from its pre-crisis value. I see a lot of room for upside from here.

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Author

hanwar

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