

Investors Now Know What Home Capital Group Inc. Is Really Worth

Description

Shareholders of **Home Capital Group Inc.** ([TSX:HCG](#)) recently voted against the issuance of new shares to Warren Buffett's **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) for another infusion of cash, which would have diluted existing shareholders. Although the infusion of capital would have given the company an even bigger margin of safety, investors clearly felt that it was more worthwhile to retain the risk than cut their own stakes and accept more capital.

With the vote concluded, shareholders and potential shareholders now have the opportunity to evaluate the value of the company. The pie will not be cut up into more slices, and shareholders will not be diluted in the foreseeable future. As this is viewed by many as a good thing, it is important to evaluate the chain of events which led the company into the current situation and the potential outcomes for shareholders looking to enter a new position at current levels.

With shares currently trading near the \$14 mark, this name may be of interest to many as the tangible book value remains at more than \$21 per share.

Over the past several months, the company, which fell on hard times, was forced to take money at a very high rate of interest to stay afloat until the next best suitor came along. As has been the case with many companies in the past, the best suitor was Warren Buffett. Just as he has done many times over, the world's greatest investor purchased shares in a company at substantially less than the liquidation value, and through the firepower of Berkshire Hathaway, provided the funding to mitigate the biggest risk the company faced.

For investors who've patiently held shares through the most challenging times, the reward of the first (and only) dilution by Berkshire Hathaway was that the company's long-term solvency and funding challenges were resolved, and the company would continue generating revenues and profits for shareholders. Although the solution was very good for existing investors, realize that no one enjoys being thanked for one dance and rejected for another — no matter how profitable the dance.

In the future, investors doing their own due diligence may want to pay close attention to the volume of shares traded for Canada's alternative lenders, as Mr. Buffett continues to have significant amounts of existing cash on the balance sheet. Given the very low-risk nature of default risk on a mortgage in Canada, it would make a lot of sense for Berkshire Hathaway to purchase more shares of the lender and potentially shares of competitors **Equitable Group Inc.** ([TSX:EQB](#)) or **First National Financial Corp** ([TSX:FN](#)).

Although neither company has experienced the same challenges as Home Capital Group, it must be noted that shares of each company continue to offer investors significant value. Equitable Group trades at a discount to tangible book value, and First National offers a dividend yield of almost 7%!

With money to be had, the Oracle may not be far behind.

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3. TSX:EQB (EQB)
4. TSX:FN (First National Financial Corporation)
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