Are We About to See Home Capital Group Inc. Grow?

Description

It has been a rough six months for **Home Capital Group Inc.** (TSX:HCG). Between the beginning of April and the beginning of May, the company gave up over 76%, dropping by $19 a share. Since then, Home Capital Group has been clawing its way back, working on making the business stronger and more secure. A few things that are helping stand out.

First, Home Capital Group brought in a new CEO. Yousry Bissada comes from Kanetix, Canada's largest online insurance quotes platform. Kanetix offers these leads to insurance companies, effectively acting as the middleman. Bissada should help Home Capital Group grow in a safer way.

Second, Home Capital Group gained a major ally when Warren Buffett's **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) invested $153.2 million to buy a 19.99% stake in the business. Coupled with a $2 billion line of credit, this gave Home Capital Group the confidence it needed to continue executing its strategy.

But, more importantly, this gave customers confidence. Before the Berkshire investment, Home Capital Group had $111 million in high-interest savings accounts, $141 million in Oaken savings accounts, and $12.025 billion in guaranteed investment certificates (GICs). When Home Capital Group last reported in August, all three had increased, with $126 million in high-interest savings, $186 million in Oaken savings, and $12.48 billion in GICs. That's not bad.

The third event that stands out is that legal risks are beginning to disappear. Home Capital Group has settled with the Ontario Securities Commission and a separate class-action lawsuit. When these are all wrapped up, Home Capital should be able to focus on the future.

And the future looks bright.

Home Capital Group is currently sitting on a tangible book value of $21.50, but investors are only valuing the company at less than $14 per share. Because of the rough six months, investors are likely scared to step back in fully. But where there is fear, there is also likely some opportunity for those investors that take a risk.

Another potential catalyst for Home Capital Group is a new rule put in place by the Office of the Superintendent of Financial Institutions (OSFI) that makes it more difficult for banks to offer mortgages to their clients. Essentially, clients have to show that they could pay back a mortgage to a bank even if interest rates increased by 2%.

This is a win for Home Capital Group, because it doesn't have to pay attention to these rules. Therefore, for those banking clients that don't pass the stress test, they'll be forced to use Home Capital Group. These prospective clients can be high quality, so Home Capital Group's risk associated with lending should drop.

Obviously, Home Capital Group still has a lot of work to do before it will be a truly safe investment. Yet all signs point to growth ahead. The company has more liquidity in its arsenal on top of an expected increase in demand because of government regulation. Couple that possible growth with the investor fears that are holding this stock under its tangible book value, and you're presented with a unique opportunity.

Part of being an individual investor is having the conviction to act when major institutions don't. I wouldn't back up the truck, but I would start buying.

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2. NYSE:BRKA (Berkshire Hathaway Inc.)
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