# After Earnings, Home Capital Group Inc. Remains an Amazing Buy

## Description

Late last night, **Home Capital Group Inc.** (TSX:HCG) reported third-quarter earnings, which met expectations. Although shares opened down by more than $1 per share, the bulls have clearly won out, as the stock has recovered and is currently moving towards the $15 mark. Potentially the most surprising thing about this earnings report is just how closely the company met expectations.



The company made a quarterly profit of $0.37 per share and increased the tangible book value from $21.82 from three months ago to $22.20 as of September 30 of this year. Essentially, the value of the company has increased, as profit is once again being generated and no dividends are being paid to shareholders. To boot, the company continues to have at least $2 billion available from Warren Buffett should it be needed. The main reason for the share price decline several months ago has been put in the past.

The company announced that it has almost completed a restructuring project, which will save money over the long term. The challenge, however, will be maintaining enough key talent in the underwriting department to be able to process and fund the new mortgages. Although investors reacted negatively to the decline in lending (which is a proxy to future revenues and profits) at the market's open, it should be noted that the trend in lending is accelerating, as the company has previously placed a moratorium on any new lending and was sending renewals to the competition.

What is potentially the biggest surprise from the company this week is not the earnings, but the reaction to earnings. With shares that continue to increase in value with each passing quarter, many income investors who may have held the course are potentially making a mistake by selling this stock at this stage of the game. What was previously a dividend stock has become an excellent investment for those seeking to take a higher amount of risk and potentially receive a higher reward.

Although company earnings remain negative $0.33 for the year to date, investors need not worry about a downtrend; instead, this earnings report has offered a significant amount of clarity to those who wish to hold shares for the long term. As has been the case many times over, things are moving in the right direction, but not quickly enough for many investors. Over the next 12 months, patient investors should expect to see significant upside with this name, as shares have the potential to move from $15 to more than $20 per share once the company normalizes its operations.

With a very low beta of 0.50 and both the 10-day and 50-day simple moving averages acting as a floor for the stock, the move upwards (similar to competitors in the alternative mortgage market) could even happen sooner rather than later. Investors will have to be patient to see what tomorrow holds.

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