

## Value Investors: Is Home Capital Group Inc. Stock a Buy Now?

### Description

**Home Capital Group Inc.** ([TSX:HCG](#)) stock surged more than 3% a day after the troubled lender announced its third-quarter earnings, which beat analysts' expectations.

The lender reported \$0.37 adjusted earnings per share, above the average \$0.25 forecast by nine analysts surveyed by *Bloomberg*. Net income of \$30 million was half of what the alternative mortgage provider reported in the year-ago period.

For investors who are watching Home Capital Group's performance closely to look for a meaningful recovery in the company's loan advancement, the third-quarter earnings report is a mixed bag.

While the company regained profitability after emerging from a [near-bankruptcy situation](#) this year, its loan origination remained weak.

Mortgage origination dropped 85% to \$385 million in the third quarter from a year ago.

"New loan originations were well below historical levels and are not adequate to replace loan assets reduced through sales," Home Capital said in the statement. "Although the company successfully stabilized its liquidity position and quickly restored deposit funding, the process of restoring loan growth has been slower than planned and is management's top priority."

The lender expects its single-family home loans will be \$10 billion at the end of the year, down from \$10.4 billion at the end of the third quarter.

### Next big challenge

There are clear signs that Home Capital Group has successfully overcome its liquidity crisis after an equity injection by Warren Buffett's firm, as the lender struggled to survive after the Ontario regulator accused the company of not disclosing mortgage fraud properly, sending its shares to a record low.

The lender is still facing significant uncertainty on how to grow its mortgage portfolio and regain its market share. This problem has been further compounded after the federal banking regulator has passed new [stringent stress-test rules](#) for mortgage borrowers from January 1.

"The stress test requirement is expected to have the most material impact on the mortgage market and would result in a material portion of the company's existing portfolio qualifying for smaller loan size, if re-qualified under the new rules," the company warned in the statement.

### Should you buy HCG stock?

Despite these challenges, Home Capital Group shares have slowly been regaining their lost ground. During the past six months, its stock price has jumped over 60% to trade at \$14.70 at the time of writing.

Going forward, Home Capital's fate is very much dependent on the market forces which will set the direction for the Canadian housing market in 2018. Indications are that we are entering a slow patch after the heavy intervention by both federal and provincial governments to slow red-hot real estate markets in Canada's big cities.

Having said that, I think, Home Capital stock has started to offer a good value for long-term investors. After the turmoil it faced this spring, the lender is well positioned to benefit from the strength of the Canadian housing market, where dynamics remain strong.

With Warren Buffett on its side, and the new management working hard to put the company back on track, HCG stock is set to move higher from here. I think the timing is right for value investors to move from the sidelines.

## CATEGORY

1. Bank Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

1. Bank Stocks
2. Investing

## Tags

1. Editor's Choice

## Date

2025/08/17

## Date Created

2017/11/16

## Author

---

hanwar

default watermark

default watermark