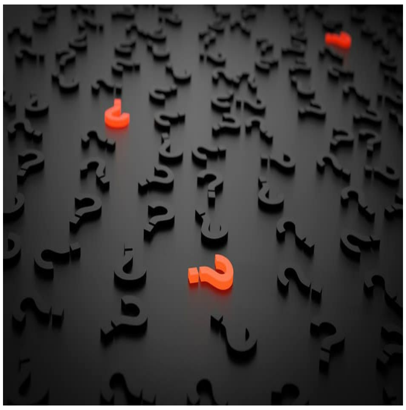

Do Home Capital Group Inc.'s Q3 Results Make the Stock a Buy?

Description

Home Capital Group Inc. (TSX:HCG) released its third-quarter results this week. The alternative lender has seen a lot of bad press this year, and it has been able to find its way back to profitability after a second quarter that saw the company post a loss of $111 million. Home Capital also saw a lot of customers withdraw funds in the wake of scandals about the company misleading its investors.

In Q3, Home Capital's revenue of $95 million was just two-thirds of the $145 million that the company recorded a year ago. Profits of $30 million were also more than cut in half from 2016's totals, and that was still a big improvement over the hefty loss Home Capital recorded in Q2.

Mortgage origination down 85%

Despite the company bouncing back from its troubles earlier in this year, Home Capital still has a long way to go. Mortgage originations totaling $385 million were a small fraction of the $2.54 billion that the company reported a year ago.

Although the company's CEO believes that the situation is improving, and the goal is to grow mortgage balances, it won't be easy. Not only does the company still have the stigma of misleading investors that it needs to shake off, but it now has to deal with rising interest rates and more difficult stress tests for borrowers.

These developments alone will make it challenging for Home Capital to get back to where it was a year ago.

Investors respond positively to the results

The stock went up more than 3% in trading on Tuesday on news of the results. Year to date, the stock has still lost more than half of its value, and the company has seen improvements since the initial lifeline it received from Warren Buffett earlier this year.

Some of the changes include reducing expenses through the sale of its payment-processing division as well as cost-cutting measures through the completion of the company's Project Expo, which is expected remove $15 million in annual costs.

However, despite all of this, Home Capital has failed to see any sustained progress in its share price, and although it initially got a boost from the Buffett investment, the stock eventually went back on the decline.

Why the stock might not be a good buy

There's no shortage of negativity around the stock, and although management may be optimistic about the future, investors should wait for more tangible results before investing. Home Capital did put in an improved quarter in Q3, but it still has a long way to go in proving to investors that it is back to its previous levels.

The company already operates in an industry that is facing challenging market conditions, and adding a troubled company with a damaged image into the mix could make it a recipe for disaster.

Why the stock might be a good buy

The share price has been stable for several months now, and it appears it has seen the bottom and recovered from it. If the company can continue to put in strong quarters, and that's not a small *if*, then there could be considerable upside from buying Home Capital today.

However, with the troubled past always fresh in the minds of investors, one small setback could send the stock plummeting again, making this an investment not suitable for those with a weak stomach.

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