



## This Value Stock Could Be a Successful Turnaround Bet in 2018

### Description

If you are on a hunt for big returns and have an appetite for taking greater risks, then investing in turnaround situations is one option for you.

In this investing approach, the upside potential is huge. In most cases, we are talking about triple-digit gains. And these are the kind of returns you can brag about at a New Year's party.

There is no doubt that this is a risky strategy and might prove a costly one for you if you have not done your due diligence properly. But if you come across a company you feel is on the right track, you should invest in it with conviction and patience.

As we enter 2018, I see one interesting turnaround candidate in Canada that could provide a great value. Let us find out if this name fits with your investing style.

### Home Capital Group

If you are betting on the [Home Capital Group Inc. \(TSX:HCG\)](#) turnaround, the good thing is that one of the world's most successful value investors, Warren Buffett, is on your side.

Buffett, through **Berkshire Hathaway Inc.**, rescued this Toronto-based non-bank mortgage lender this spring after its deposit base collapsed on the news that the lender misled the regulator on the depth of mortgage fraud by its brokers.

Since then, Home Capital shares have been recovering, pushing the value of Buffett investment 70% higher. Going forward, the biggest question for investors is whether Home Capital can continue with its upward journey or if it has reached its [fair value](#).

The latest developments suggest that the company could prove a good turnaround bet for 2018. The alternative mortgage lender, which provides lending to home buyers who don't qualify for loans from traditional banks, has recently got a vote of confidence from DBRS Ltd. rating agency.

The credit-rating agency upgraded Home Capital by one notch to "B" with a stable trend. DBRS noted

that deposit and liquidity levels have stabilized, adding that Home Capital “is now in a steady position with the hiring of a full complement of senior executives who were able to restore market confidence and set clear goals.”

The second encouraging development came with the company's third-quarter earnings. For the quarter, Home Capital reported \$0.37 adjusted earnings per share, above the average \$0.25 forecast by nine analysts surveyed by *Bloomberg*.

### **Upside potential**

Some analysts now believe that Home Capital stock trading at \$16.28 is close to its fair value after surging more than 170% since April, when it touched the all-time low during the liquidity crisis it faced.

But I think Home Capital is a long-term bet with a huge upside potential. My biggest argument for this upbeat call is that the quality of Home Capital's lending book remains strong. There are no signs of rising delinquencies, and the Canadian housing fundamentals are also favourable for the company to regain its market share.

Having said that, there are also some risks to this positive outlook. More stringent mortgage rules, which the government is introducing January 1, is one of them. And a severe correction in the housing market is another negative scenario that could derail the Home Capital recovery.

Home Capital stock is good turnaround bet for 2018 if you are comfortable with this risk/reward equation.

### **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

2025/07/05

### Date Created

2017/12/01

### Author

hanwar

default watermark

default watermark