



Is Home Capital Group Inc. on the Road to Recovery?

Description

Home Capital Group Inc. ([TSX:HCG](#)) [pleased shareholders](#) earlier this month when it announced earnings for the third quarter.

The company reported earnings per share (EPS) of \$0.37 for the quarter, which was \$0.64, or more than 63%, lower than the year-ago period, yet the results were more than enough to beat or meet most analysts' expectations, as the embattled mortgage lender works to regain ground after what was a very difficult 2017.

The Toronto mortgage lender faced a bank run on its deposits earlier in the year amid a scandal that involved allegations of fraud and insufficient internal controls.

It wasn't until world-famous investor Warren Buffett stepped to the forefront in June, backstopping the company with a \$2 billion line of credit to help address liquidity issues. In a move that showed confidence in the company's underlying business, Buffett also initiated a 20% stake in the company for \$10 per share with the option to acquire another 20% later in the year.

While shareholders ultimately [rejected Buffett's offer for an additional 20% stake](#), the Oracle of Omaha's interest in the company has done much to restore investor confidence.

This summer saw a massive shake-up of the company's board of directors and senior management, including the appointment of new CEO, and mortgage industry veteran Yousry Bissada, who sees an opportunity to re-invent the culture at Home Capital and "make fresh decisions about what kind of company we want to be."

Turning talk into action

In the third quarter, Home Capital returned to profitability, earning net income of \$30 million following a loss of \$111 million in the second quarter.

The company also improved its Common Equity Tier 1 Capital ratio to 21.25% in the third quarter, all the way from 16.55% in the year-ago period. The Tier 1 Capital ratio is used to measure the depth of a

company's capital reserves that can be used to absorb losses in times of need.

The company's improved capital position, along with Buffett's \$2 billion undrawn credit line, go a long way to show investors that the company's fortunes have dramatically improved from where they were just six months ago.

Bottom line

Home Capital shares are up an impressive 19% so far in November in a sign that the investment community is starting to take notice of the changes Home Capital is making.

In the third quarter, the company's book value per share improved to \$22.20 per share from \$21.82 in the previous quarter — another encouraging sign that things are starting to get on the right track again.

Those still watching on the sidelines may want to start acting with some degree of urgency and snap up shares in the mortgage lender while they can still get them at a discount to book value before it's too late.

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