



Home Capital Group Inc.: Are We Still Buying?

Description

Home Capital Group Inc. ([TSX:HCG](#)) has been on a bit of a roller coaster with investors. Things got really bad in spring of 2017 with shares dropping hard to under \$6.

But then Warren Buffett came to save the day and [by July](#), we were wondering whether things might have started turning around at the company. Buffet purchased a 19.99% equity stake with a \$153.2-million investment along with providing a \$2 billion line of credit.

[Fast forward to October](#) and things were beginning to look bright. The company saw all of its deposits increasing, and it appeared that trust in the company was on its side. I even recommended investors to start buying, though not to back up the truck.

Is that still my opinion? Absolutely. Here's why....

Home Capital Group was able to survive one of its most difficult situations, effectively moving past the criminal aspect of alleged mortgage fraud. While doing so, it has effectively stayed cash flow positive, a good sign for the company as it continues to grow.

And it appears that borrowers and deposits feel comfortable with this. When Home Capital Group reported its second-quarter results, it had \$126 million in high-interest savings and \$186 million in Oaken savings. Now Home Capital has \$176 million in high-interest savings and \$179 million in Oaken.

In total, the company has \$4.66 billion in aggregate available liquidity and credit capacity. And \$2 billion of that is the undrawn Berkshire credit line, but this shows that the company has the means to grow its business.

Another thing that leaves me intrigued is the new rule put in place by the Office of the Superintendent of Financial Institutions, which says that banks can't lend to a client who wouldn't be able to pay back a mortgage if interest rates increased by 2%. This rule doesn't apply to Home Capital Group, however, so it should get high-quality customers that banks can't lend to.

Naturally, problems remain. It has put the criminal problems behind it, but the civil problems remain. There is already one class action lawsuit against Home Capital Group, and it's possible that others could spring up. We're not yet sure what this is going to cost the company (if anything), but the uncertainty is keeping investors on the sidelines.

As Buffett says, "Be fearful when others are greedy and greedy when others are fearful."

The tangible book value of Home Capital Group is \$22. With shares trading around \$16 a share, you're getting a 27% discount on every share you buy. As the market warms up to the company, the share price should get closer to its tangible book value, providing investors with a solid return on investment.

I remain intrigued by Home Capital Group. It's not a perfect investment and there are risks; however, I do believe that the worst is behind us. Therefore, starting a position or even expanding on one could be a smart investment decision.

But if you're not convinced, we have some suggestions...

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