



Home Capital Group Inc. Jumps 10%: Is it Time to Buy or Sell?

Description

Home Capital Group Inc. ([TSX:HCG](#)) was up more than 10% on Monday, as the stock bounced back after starting the year down by a similar amount. It's unclear what was behind the big recovery, as the company did not release any new information recently. The only development last week was news that short seller Marc Cohodes was filing a lawsuit against the company and former executives for misrepresentation for a total of \$4 million.

Despite the lawsuit, Home Capital's stock was largely unaffected by the news. However, as we've seen with **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)), [short sellers can have a significant impact on a company's stock](#), so investors should keep a close eye on any further developments relating to this.

Although there is no clear reason for the rise in price, let's take a look at whether Home Capital is good buy today.

Tighter mortgage rules could present new challenges for the stock

While 2017 saw the company face challenges related to its liquidity, in 2018, the focus will likely shift to Home Capital's top line. Although the company may have turned a corner and found some stability, there is still a lot of work to do. In its most recent quarter, Home Capital's sales were down 34%, while net income was more than cut in half.

Where does the share price go from here?

Since late November, the stock has seen support at ~\$16, so perhaps it's not a surprise that the share price rebounded from its latest sell-off. In the last three months, the stock has risen more than 26%. The big question is how the company will perform in Q4, and if it will be able to build on its most recent results.

A strong finish to the year could give the stock some needed momentum, as it has not closed over \$19 since June, when it was first announced that Warren Buffett was going to give the company a lifeline. With the stock near its three-month high, investors may be wondering if the share price has much upside left.

Is Home Capital still a good value buy?

Scandal-ridden stocks often attract value investors like Buffett, because they want to buy a good company at a big discount. Home Capital currently trades at less than 80% of its book value, even with the boost it got on Monday.

Although trading below book value is not a reason to buy a stock, it gives investors an indication that it might still present a lot of upside.

Is the stock a buy today?

Over the long term, Home Capital looks like a good bet to recover. Prior to last year's crash in price, the stock had strong support at \$25 for over several years. Although there's no guarantee that the share price will reach that level again, it's definitely attainable in the long term if Home Capital is able to prove to investors that it can be the company it once was, without all the scandals.

Over the long term, Home Capital presents a lot of upside, and it's a stock that [could have a great year in 2018](#).

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