



Up by 15%, This Well-Known Company Remains a Strong Buy!

Description

This week has been a very good one for investors in **Home Capital Group Inc.** ([TSX:HCG](#)), who have witnessed their fortunes increase by almost 15% as shares [have risen](#) from approximately \$15.50 to the current price of nearly \$17.75 per share. Investors who have remained patient and held their shares are probably smiling and expecting to get the last laugh over the next few weeks.

Although earnings are set to be reported in less than one month, it is worth noting that shares of this alternative lender have traded in the price range between \$5.06 and \$30.54 over the past 52 weeks, which may allow for large movements in the coming month. Although the beta is a very reasonable 0.6, many investors remember the major pullback in the share price all too well, which set a new low in the \$5 range. The fear is still very present for too many investors, who are still too scared to take the leap.

Although most of the lender's troubles are mostly in the past, comparatively speaking, the minor challenge that the company now faces is the litigation expense (or cost of a settlement), which was recently brought by shareholders, who feel that certain information was not properly disclosed.

In spite of its being business as usual for the company, as the previous quarter yielded profit of \$0.37 per share, the full potential of this operation will not be unleashed until the final pieces of this civil suit are dealt with. In the meantime, however, the dividend has been cut to zero and the company is retaining 100% of its profits in an effort to ensure that there will not be a liquidity crisis again. Obviously having Warren Buffett in [your corner](#) can help as well.

Although shares have risen by close to 15% and traded at slightly less than \$18 per share at the time of writing, the value that long-term investors will find in this name may come in the form of the company's tangible book value. Currently, the assets minus the liabilities and intangible assets equates to almost \$22 per share. For investors, this means more than 20% upside.

The opportunity for investors willing to hold this name for the long term not only lies in the current value, but also in the value that will be generated by the operations of the company on an ongoing basis. Prior to 2017, the annual profit was regularly \$4 per share, which averages out to \$1 per quarter. As the company is no longer paying a dividend, it's only a matter of time before daily operations return

to normal and bottom line profits pick up where they left off. At this point, shareholder value will increase substantially.

The icing on the cake may just come in the form of a share buyback once operations return to normal. As the company may be hesitant to resume its dividend, the capital to be returned to shareholders may be done through a share buyback, which will lead to an even greater amount of tangible book value per share. Only time will tell.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:HCG (Home Capital Group)

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