Home Capital Group Inc.: Where Will it Go?

Description

This past week was very eventful for a number of reasons. Valentine's Day came and went as usual, the result was, of course, many winners and many losers who ended up in the doghouse. In the case of the stock market, there was one name that reported earnings; the company was already in the doghouse and is trying to make its way out!

On Wednesday, **Home Capital Group Inc.** (TSX:HCG) reported earnings after the market closed. In spite of reporting earnings that almost perfectly met expectations — a profit of $0.38 per share — investors were met with a decline in the share price the very next day, only to close the week with with a rebound. As usual, the market is loaded with vicissitudes that impact all investors.

Although the company has yet to reintroduce the dividend that was cut during 2017, shares of this alternative lender remain extremely valuable, yet continue to trade at no more than $17.11 per share. After reporting earnings, the tangible book value, calculated as assets minus liabilities minus goodwill (and then divided by the number of shares outstanding), is no less than $22.30 per share. Patient investors have the opportunity to be very well rewarded if they are able to stay invested without receiving any dividends along the way.

On another front, the bottom-line earnings have increased from $0.37 for the third quarter to $0.38 for the fourth quarter. As the company finds its footing, given its new smaller size, the normalized bottom line should be about $0.40 per share on a regular basis. With normalized earnings of $1.60 per share each year, investors should not expect any less than 12 times earnings, which would translate to a share price of $19.20 per share. At the current price of $17.11, shares trade at close to 10.6 times earnings.

Although things are now going in the right direction for the company and shareholders alike, there remains at least two catalysts that could send shares substantially higher. The first is the possibility that major shareholder Warren Buffett could enter the picture with a very large cheque and buy the entire company, as he is now starting to look to Canada to find new investments.

The second is that the dividend could be re-initiated (or a share buyback undertaken), which would lead to the "clientele" effect, meaning that the investors who seek dividends would once again be attracted to the stock. Essentially, more buyers would emerge, which would result in a higher share price. Should the company instead opt for a share buyback, the result would be fewer shares outstanding and higher earnings per share for investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/24
Date Created
2018/02/19
Author
ryangoldsman