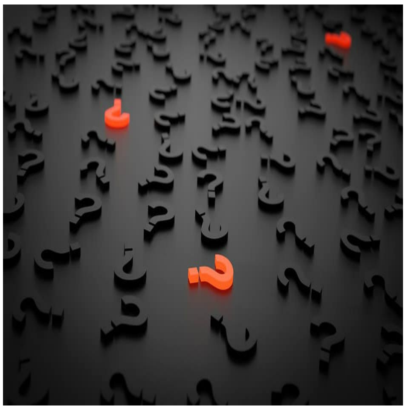

Has Home Capital Group Inc. Turned the Corner?

Description

Home Capital Group Inc. (TSX:HCG) released its fourth-quarter earnings last week as the company continued to build on its improved Q3 results while also creating a bit more distance from last year's scandals. Here are the big question that investors are likely asking:

Is it safe to invest in Home Capital again?

The problems the company experienced with its image last year have not carried over into 2018; in the past six months, the share price has climbed nearly 30%. As long as no new scandal pops up, it looks as though investors can remain focused on the company's financial results rather than having to worry about ongoing controversies.

How did the company do in its latest quarter?

The good news is that Home Capital put together another profitable quarter — the company's second after a brutal Q2 that saw the company record a net loss of $111 million. For all its problems, however, Home Capital has still remained in the black in all but one of the past five quarters.

The bad news, however, is the noticeable dent in the company's financials. With $31 million in profit for Q4, that's down 40% from the $51 million that Home Capital netted a year ago. While its revenue of $109 million was up from the previous quarter, it fell by as much as 24% from a year ago, when the company generated $145 million in sales. Return on equity of 6.8% in Q4 was also nearly half of the 12.6% that Home Capital was able to achieve this time last year.

Home Capital has made some progress recently, but it's still a long way from where it was just a year ago.

New stress tests to help Home Capital?

This year was expected to be a challenging one for banks and lenders alike, as not only have interest rates climbed, but tougher rules and stress testing on mortgages could limit the amount of mortgages that get approved.

Home Capital, however, believes it could be an opportunity for the lending company to take some business away from the big banks. In its earnings report, Home Capital stated that it "has identified a number of strategies to mitigate the impact of stress testing and co-lending changes while maintaining overall credit quality." It's unclear how the company plans to take advantage of the conditions, as it is subject to the same conditions as those of the big banks, but it suggests that Home Capital is looking at ways to ensure that it offers more attractive products than its competitors do.

Is Home Capital a buy?

While the company is working to build on its positive results, investors have still not forgotten about its past as the stock still trades at a hefty discount, with the share price just 0.75 times its book value. It's encouraging to see the company making good strides and progress, but it's still a very sensitive stock that could be easily shaken. While it might be a good value buy at the current price, it might not be suitable for risk-averse investors.

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