Home Capital Group Inc.: A Warren Buffett Stock That's Stuck in the Mud

Description

Home Capital Group Inc. (TSX:HCG) stock has been in a range trading since Warren Buffett's **Berkshire Hathaway Inc.** rescued the Toronto-based non-bank mortgage lender last summer.

Warren Buffett's $400 million equity injection in June 2017 not only saved Home Capital from a total collapse after a run on its deposits, but it also immediately doubled the share price from its lowest level in more than a decade.

Now almost a year has passed, and it seems Home Capital shares are stuck in the mud. The company is still struggling to convince investors that it's on the right path to recovery, and it'll regain its once coveted position in Canada's mortgage market.

At $16.47, Home Capital shares are trading at the same level where they were at last June. The company also got a lukewarm response to its better-than-expected fourth-quarter earnings. The company reported $0.38 a share diluted earnings — one cent higher from the Street consensus.

The total loan origination in the fourth quarter surged 126% to $872.1 million when compared to the third quarter, but it remains drastically low when compared to the fourth quarter of the last year when it was $2.43 billion. Home Capital management, however, remains confident about the future.

"We are entering 2018 with positive momentum in our business. We have turned the corner and expect to grow from here," said Yousry Bissada, president and CEO, in the earnings statement. "We have a strong capital position and balance sheet. We will use our position of strength to seize opportunities to invest in, and grow, our business to create value."

After achieving stability in its funding and getting the backing of the world's most renowned value investor, I think Home Capital remains a good turnaround bet for long-term investors.

Canada's slowing housing market

The biggest drag on the company's share price is coming from a housing market, which is slowing down and facing a considerable regulatory action from the government, which wants to cool the market after a decade-long boom.

At the end of last year, the banking regulator has introduced tighter mortgage rules, which are making it difficult for home buyers to qualify for loans. In British Columbia, the provincial government has announced it was introducing a new speculation tax to discourage foreign buyers.

In Toronto, Canada's largest housing market, home prices pulled back last year after Ontario implemented a series of measures, such as restricting foreign buyers to cool the once red-hot market. Early this month, data from the Toronto Real Estate Board showed the average selling price of a detached home in Toronto fell almost 4% in January from a year ago.

What does that mean for Home Capital?

A cooling housing market and tighter mortgage regulations mean that Home Capital will find it tough to regain its market share, which it lost after the liquidity crisis it faced last spring.

My fellow writer Ryan Goldsman discussed in a recent article two potential scenarios that could infuse some life in Home Capital stock. Those possibilities include a resumption of the company's dividend plan, or a further stake sale to the company's major shareholder, Warren Buffett.

Patient investors with a long-term view can take advantage of Home Capital's low share price and take a position. But I don't see a major catalyst that could fuel substantial gains in the company's share price in the short to medium term.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2018/02/22
Author
hanwar