



## Checking In With Warren Buffett and Home Capital Group Inc.

### Description

This past weekend, Warren Buffett from **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) released his annual letter to shareholders, and, as usual, there was a lot of good news with a few surprises.

The reason that Canadian investors need to start paying attention to this company is due to the fact that after close to 50 years of investing in the United States, Berkshire has started to seek investments in other countries, including Canada. Several months ago, investors will remember that the Oracle of Omaha took a major stake in shares of **Home Capital Group Inc.** ([TSX:HCG](#)), as the company faced a liquidity crisis and shares traded at a substantial discount to [tangible book value](#).

Fast forward to 2018: shares of the alternative lender continue to trade at a discount to tangible book value. Let's look at the history of Berkshire. The purchase of Clayton Homes (a mobile home builder) was only the tip of the iceberg. What resulted from that purchase was a distribution network for financing, which was provided by other related companies that are part of the "Berkshire Family." In this year's letter to shareholders, it was disclosed that the home builder has continued its expansion process, as it acquired competing home builders.

In the case of Canada's Home Capital Group, the beginning may just be the leveling of the ship. As the company has now reported earnings in two consecutive quarters that have met expectations, shareholders may be in prime position to benefit from a shift in how the business is run. Although loaning money for homes has served the company very well, the reality is that there are many other items (such as mobile homes, or cars, or potentially even furniture) that can be financed through alternative lenders.

In spite of many investors thinking that this type of lending is not where the company needs to be, the reality is that with high enough margins, any business segment can become very attractive for management and investors alike.

At a price of almost \$16 per share and tangible book value between \$22 and \$23, there is clearly a lot of meat left on the bone for those willing to remain patient. As a reminder to investors who are afraid

of a pullback in the Canadian housing market, the truth is that the alternative lender has drastically slowed its lending over the past 12 months, as existing owners have had the opportunity to build more equity in their homes.

Should a pullback be on the horizon, lenders should not worry about major losses, as the equity built up in the borrowers' homes is what would be lost first. In the event that foreclosure becomes an issue, the main worry will rest with the homeowners instead of with the lender.

Enjoy the [upside](#) in shares of Home Capital Group Inc.!

## CATEGORY

1. Investing

## TICKERS GLOBAL

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2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. TSX:HCG (Home Capital Group)

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