



Which Is the Better Buy: Home Capital Group Inc. or Valeant Pharmaceuticals Intl Inc.?

Description

In many cases, getting a low price for a stock involves taking on some risk or giving up something else in return. Warren Buffett has built a fortune on finding value, and one way he's been able to do so is by taking chances where others may have been hesitant.

Last year, Buffett decided to invest in **Home Capital Group Inc.** ([TSX:HCG](#)) in the midst of its scandal. Investing in companies at a time when there is negative press and going concern issues can be a risky thing to do, but not always.

In the case of Home Capital, the company still had a strong business model and good financials, and those that were involved with misleading investors were long gone. However, when news of a scandal breaks out, those details can often get missed and the focus is instead on what went wrong, and the stock's bandwagon gets filled with bears very quickly.

As a result, Home Capital's stock went over a cliff. Although it has [recovered](#), it still hasn't returned to its previous highs.

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) is another company that has seen its fair share of negative press in the past year, although it hasn't been involved in a scandal like Home Capital's. However, the company's [debt](#) is a problem, especially in a rising interest rate environment.

Which company offers investors better value for their money?

Valeant is an attractive value buy for investors looking to secure a deal, as the stock is trading below book value, and its price-to-earnings (P/E) ratio is less than three. However, the company still carries a lot of risk with its long-term debt being more than four times its equity, and that's after Valeant's efforts to bring down its liabilities.

Home Capital is another appealing option for value investors, as it is trading at just 0.6 times its book value, although its troubled year has left it with minimal earnings and very high P/E ratio. However, if the company can return to its success in 2016 and achieve similar earnings, then its multiple would

also be around three.

A look at growth potential

Both companies are facing challenges when it comes to growth. In the case of Valeant, high debt levels and interest costs could burden the company's operations and limit its ability to reinvest in its operations and the important research and development it needs to grow.

Home Capital is on the path to recovery, but the Canadian economy could be due for a setback this year, and that could spell trouble for its prospects for growth as well.

Bottom line

Over the past six months, the stocks have gone in different directions: Valeant has seen its share price climb more than 6%, while Home Capital has declined 8%.

Ultimately, it's a matter of which problem you'd rather have: high debt levels or struggling sales growth. If you can grow sales, you can bring down your debt, and that's something Valeant has already started to do. For that reason, I'd invest in Valeant over Home Capital today.

CATEGORY

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2. TSX:BHC (Bausch Health Companies Inc.)
3. TSX:HCG (Home Capital Group)

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