



Don't Miss Out! Your 2nd Chance to Invest Alongside Warren Buffett

Description

Last year was, without question, a wild ride for **Home Capital Group Inc.** ([TSX:HCG](#)) and its shareholders.

And perhaps to no one's surprise, we have ended up back where we originally started, and you have a chance to invest alongside the world's most famous investor, Warren Buffett, with a stake in the Canadian mortgage broker.

How it all began; a bank run on Home Capital by the short sellers

Just under a year ago a collective of short sellers — speculators who hope to profit from the decline in a company's shares price — organized a bank run designed to threaten the solvency of Home Capital.

By pushing down the price of Home Capital stock, the “bears” were betting that the mortgage lender would exhaust its sources of available capital, forcing the company into bankruptcy protection.

Amazingly, the plan worked.

Shares in Home Capital plummeted from \$28 to under \$6 in a matter of weeks, and at one point it looked like there was a good chance the lender would soon be going out of business.

Home Capital needed a bailout

Without the ability to raise debt or equity capital, Home Capital needed to resort to desperate measures.

Home Capital managed to arrange for a \$2 billion line of credit from a large institutional investor, the Healthcare of Ontario Pension Plan (HOOP).

But the bailout wouldn't come cheap; in fact, it was downright punitive.

Following the announcement of the deal, many wondered, despite reaching the agreement, if Home Capital would ever be able to turn a profit after servicing the interest payments on its new credit facility.

Warren Buffett rescues Home Capital

Shortly after reaching the deal, news broke that Warren Buffett had agreed to take Home Capital out from under the burdensome HOOP credit facility under more agreeable terms, adding the caveat that Buffett would be taking an ownership stake in the company — a strategic move, but also a [show of confidence](#) that his interests were fully aligned with shareholders' interests.

Where we find ourselves today

Following the Buffett deal, Home Capital's shares skyrocketed from \$10 all the way to above \$20 at one point before settling back to the low to mid-teens.

After a nice rally from \$13 to \$18, or a gain of 38%, in the second half of 2017, shares have once again settled back into the \$13 range — not much above the price where Buffett inked his 20% ownership stake.

How much confidence do you have?

An investment in the shares of Home Capital is essentially a bet on the Canadian — more specifically, Toronto — [housing market](#).

Home Capital shares entered Tuesday's trading at a sizable discount to their tangible book value of \$25.19 per share. That \$25.19 value approximately represents the value that shareholders would get if the company liquidated its entire book of business — provided the loans on its books have been underwritten profitability.

That's the big question overhanging Home Capital's shares right now — the quality of its current book of business.

But one would have to hope that Buffett and **Berkshire Hathaway Inc.** would have done their due diligence on those loans before extending the \$2 billion line of credit and initiating a 20% stake in the company.

At this point, your decision on whether Home Capital shares deserve to be a buy or not should ultimately come down to just how much confidence you're willing to place on the Oracle of Omaha.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

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Author

jphillips

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