How Investors Will Make Huge Profits Alongside Warren Buffett

Description

Every now and then, the market seems to give a price a security that does not correspond with the underlying “intrinsic value” of the company. This is how the “Oracle of Omaha,” Warren Buffett, has built a career for himself over the past 50 years.

In spite of a number of articles written about him and **Home Capital Group Inc.** (TSX:HCG), it would seem that investors at large are not prepared to extend an olive branch to this name — even while the world’s greatest investor stands behind it.

This past week, it was announced that the credit line extended by Warren Buffett would be replaced with a less-costly option offered by two major Canadian chartered banks. In spite of the knee-jerk reaction of certain investors, there remains very little to worry about, as the the Oracle continues to hold an equity position in the company. To make things even better, the current line of credit will decrease costs, which will hopefully increase the bottom line over time.

As a reminder to investors, when a mortgage company takes on debt to fund additional borrowing, it is traditionally a positive action, as the lending will increase revenues in the future. Home Capital Group is no different. After reporting quarterly earnings per share in the amount of $0.43, $0.38, and $0.37 over the past several quarters, investors may have failed to weigh the benefits that this line of credit offers. At a minimum, it offers a substantial amount of breathing room to the company to be able to conduct business in a much more assertive manner.

The potential for investors to make a substantial amount of money will come in one of two ways. The first is with the profits being shared with investors through either the re-initiation of a small dividend or in the form of share buybacks. Although the textbooks say that the values are equal, taxes are often not considered. For investors holdings shares in a taxable account (non-registered), the dividend will not be as good as a share price increase on a post-tax basis.

Another factor that makes a share buyback much more attractive is that the current share price of $14 is a 40% discount to tangible book value, which would increase even further with fewer shares. Eventually the rising of the tide will drag all boats up — even the stubborn ones!

The final thing to consider is the possibility that the biggest shareholder could enter the picture in a much bigger way by offering to acquire the entire company. Although this option may not seem obvious to everyone, it should be noted that a smaller acquisition could act as a “test-run” (for **Berkshire Hathaway**) should there be a bigger and better target north of the border at a later time.

CATEGORY

1. 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. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2018/05/22
Author
ryangoldsman