



Is Home Capital Group Inc. (TSX:HCG) Back on Track in 2018?

Description

Home Capital Group Inc. (TSX:HCG) stock was up 1.13% in morning trading on July 4. Numbers were down steeply from Q1 2017 when it released its first-quarter results in May, but this is to be expected considering the broader fall in Canadian real estate year over year. There were a number of positives that investors could glean from its earnings report.

Net income rose 13% from Q4 2017 to \$34.6 million, and diluted earnings per share climbed 13.2% to \$0.43. Total mortgage originations grew 32.9% from the prior quarter to \$1.16 billion, while non-securitized single-family residential mortgage climbed to \$10.26 billion. Its capital position remains strong in the first quarter with total capital ratios reported at 24.12%.

This is all good news and points to a solid recovery following its near collapse in the middle of 2017. The Canadian real estate market remains one of the [biggest concerns](#) in the overall economy. Home sales in the GTA fell 22% year over year in May according to the Toronto Real Estate Board (TREB). There is some optimism that the new Ontario PC government will [implement reforms](#) that could boost real estate in the province. It could find itself at odds with the federal government, which has expressly sought to reduce risk after the bubble reached its peak last year.

The Vancouver housing market, which drew a great deal of national attention for its substantial housing bubble, is also facing a crisis. Marc Cohodes, the short seller who took aim at Home Capital before its near collapse, has taken aim at Vancouver's leadership. Cohodes, who is friends with British Columbia attorney general David Eby, has advocated for a sharp response to the province's money-laundering problem. In September, Eby hired the former deputy commissioner of the RCMP Peter German to lead the investigation into B.C. money laundering.

Cohodes has gone as far to recommend asset seizure. He remains incredibly bearish on Vancouver's real estate market and the Canadian market at large. Cohodes has also called Home Capital's comeback into question. Although it has achieved strong liquidity after it was rescued by Warren Buffett last year, Cohodes has argued that the steep drop in originations demonstrates that it has been frozen out by quality brokers.

Should you bet on Home Capital in the second half of 2018?

Royal Bank of Canada released its RBC Housing Affordability Measures study on July 3. It showed that the cost of housing in Vancouver reached its highest on record in Q1 2018. Vancouver residents need almost 88% of household income to purchase a home compared to the still high 74% in Toronto. The overall average was 48% in Canada and 44% in the Montreal and Calgary markets.

On the surface, housing affordability was a bipartisan issue in the Ontario election. Every candidate pledged to pursue reforms that would seek to improve affordability across the board. The study above shows that in spite of tighter regulations and a foreign buyers' tax, the provinces of Ontario and B.C. have failed to curb the long-term trajectory for rising housing costs. Market forces, legitimate or otherwise, are pushing prices upward in the largest metropolitan areas in Canada.

For these reasons, investors should look elsewhere, as Home Capital continues to carry a good deal of risk going forward.

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Author

aocallaghan

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