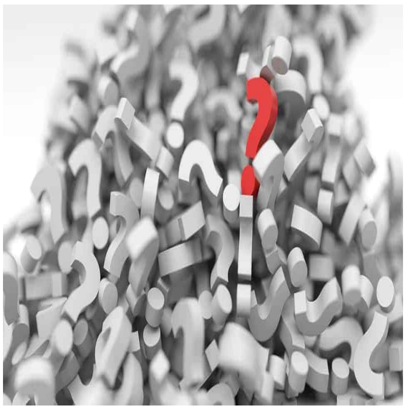

A Year Later: Is Home Capital Group Inc. (TSX:HCG) a Good Buy Again?

Description

Home Capital Group Inc. (TSX:HCG) was a big story last year as a big scandal sent the stock crashing, only to be stabilized by an investment by Warren Buffett. Since then, Home Capital has been able to stay out of the news, and I thought it would be interesting to see how the company has done since then — and if staying out of the spotlight has helped make it a better investment today.

Have results improved?

In its most recent quarter, Home Capital generated $103 million in revenue, which was well shy of the $148 million that it recorded a year ago, right before the scandal hit. It still has a way to go on the top line, but in terms of earnings, the gap is a bit smaller with Home Capital recording a profit of $35 million last quarter versus $58 million in the prior year.

The good news for the company is that its dreadful Q2 from last year when Home Capital recorded a loss of $111 million is going to make for some favourable numbers to compare against this coming quarter.

The biggest improvement, however, is evident on the company's statement of cash flow. In each of the three quarters immediately following the scandal, Home Capital used over $1.1 billion in cash from its operations. In its most recent quarter, that figure dropped to $185 million.

It's always a bad sign when you aren't cash flow positive, but it certainly looks like the company may be close to returning to that state once again.

Overall, what we can say by looking at the results is that the company has certainly improved from the dire position it was in a year ago. Although it still has some work to do, it's definitely on the right path.

How has the stock done?

Over the past 12 months, Home Capital's stock has risen by more than 15%, although year to date the stock is down around 10% as it still struggles to find stability. However, if the company can produce another improved quarter in Q2, then we could see the share price get a big boost.

The stock is still trading well below its book value and could offer investors a lot of upside.

Is it worth the risk?

There's definitely still some risk involved when it comes to investing in Home Capital, but it's definitely a lot more stable today than it was last year. It's going to take time and some good quarters for the company to distance itself from its troubled past. However, the potential upside could be significant for investors unafraid afraid to take on the risk.

Before the stock went over a cliff last year, Home Capital had strong support at $25 a share and even $30 wasn't uncommon. That leaves the possibility that the stock could increase by more than 60% from where it is today, if it fully recovers. It's taken Home Capital awhile to get to where it is today, but it isn't out of the woods just yet.

Investors who buy Home Capital today should be willing to hold on to the stock for the long term, and could be compensated generously for doing so.

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