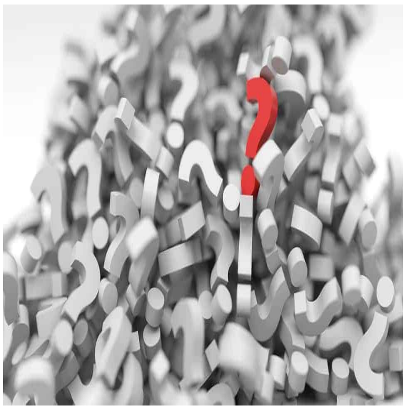

Is Home Capital Group's (TSX:HCG) Stock About to Soar?

Description

Home Capital Group's (TSX:HCG) demise has been well documented. Once an alternative lender of pristine reputation, its stock came crashing down in April of 2017. This led to the suspension of its dividend, and it needed a $2 billion lifeline from Warren Buffett to stay afloat.

More than a year removed from its struggles, Home Capital has made small comeback. Over the past year, its share price has gained 13.62%, well off post-crisis lows. In 2018, however, the company has struggled.

Year to date, Home Capital has lost approximately 8% of its value. As of writing, it's trading at $15.27, which is still well below its pre-crisis price. So, where does it go from here? Let's take a look.

Yesterday's earnings

Since posting a massive loss of $1.73 per share in the second quarter of 2017, the company has been on somewhat of a roll. In the three quarters following, the company beat analysts' earnings estimates.

Yesterday, the company reported mixed second-quarter results. It posted earnings of $0.36 per share, $0.01 below analysts' estimates. It is the company's first earnings miss since that infamous loss it posted in 2017. On the flip side, the company beat top-line estimates. Home Capital booked revenues of $101.625 million, 13.24% above market expectations for revenues of $89.75 million.

Company valuation

After suffering through a year of negative trailing 12-month (TTM) earnings, it can finally leave its massive 2017 second-quarter loss behind. This is great news for the average investor who relies on earnings ratios to value a company. These ratios only mean something if the company has positive TTM earnings.

As of Monday's close, and including 2018 second-quarter results, the company is now trading at aprice-to-earnings ratio (P/E) of 9.60. On a forward basis, the company is trading at 8.25 times earnings.This is well below the 11.5 industry average.

The company's book value per share increased to $23.40 and is now trading at a price of 0.65 times book value. Although the discount is not as pronounced, it is still trading below the 0.7 industry average.

Risk worth taking?

If you are expecting Home Capital's stock price to soar, it's best to temper expectations. Although the company has made great strides this past year, it's still operating in a challenging environment. Rising interest rates work against alternative lenders, as it can lead to a softer housing market. The government has also been implementing policies to cool the rising prices in the country's hottest markets.

You also can't discount the hit to the company's brand. Investors are going to be extra cautious with an investment in Home Capital Group. The market is fickle that way. This is still very much a show-me stock, and it may take a number of years for the company to regain investor confidence.

In the meantime, I believe competitors such as **Equitable Group** (TSX:EQB) are better investments. Arguably, Equitable Group is even cheaper than Home Capital with a P/E of 7.02, a forward P/E of 6.10, and a P/B of 0.96. Likewise, since eliminating its dividend, Home Capital has yet to reinstate it, whereas Equitable has a long history of dividend growth and is a Canadian Dividend Aristocrat.

Both are subject to macro risks, but one doesn't have the baggage of a damaged reputation.

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