



This Warren Buffett Stock Jumped 24% in a Single Day: Should You Buy?

Description

The past couple of years have been very confusing for investors who love real estate stocks. After a decade-long boom, Canada's largest cities went through a sharp correction, with the prices of single-family homes falling in the range of 20-30%.

But the latest conditions signal that the worst may be over, as these markets show signs of stability after a tightening of the mortgage rules and some demand-control measures by the government.

One indicator to look closely to find out if the market is returning to its normal pace is the financial health of the mortgage lenders. In this area, Toronto-based [Home Capital Group \(TSX:HCG\)](#), a Canadian mortgage lender rescued by Warren Buffett's **Berkshire Hathaway** last year, has a good news for real estate investors.

In the third-quarter earnings announced last week, the non-bank mortgage lender showed an improvement in both profit and the origination of new mortgages.

The company reported net income of \$32.6 million for the three months ended Sept. 30, up 8.7% from the same period a year prior. Mortgage origination continued to rebound, with \$1.4-billion of new loans issued last quarter, a rise of 16.7% since the second quarter.

Mortgage growth

"The growth in originations suggests our lending market has begun to absorb the impact of the new mortgage rules and is adjusting to a higher interest rate environment," the company said in a statement.

With earnings, the lender also announced to buy back up to \$300 million of shares, helping its stock to jump 24% following the news. The company said it plans to launch a \$300 million substantial issuer bid, which will see the company repurchase \$300 million worth of common shares at a fixed price.

Home Capital is in the middle of a turnaround after the lender nearly collapsed in the spring of 2017 when the regulator found that some loan applications had been falsified.

The lender was only able to get back to its feet after a bailout by Warren Buffett's Berkshire Hathaway, which invested \$400 million in equity and provided a \$2 billion line of credit.

Before Home Capital's earnings release, the Toronto Real Estate Board said the [housing market in Canada's](#) biggest city is recovering after a slowdown earlier this year. The recent sales declines are much smaller than at the start of the year when the mortgage rule changes made it more difficult for borrowers to get approved.

Bottom line

Trading at \$17.29, HCG stock isn't even worth half the price it was trading at when the 2017 crisis hit. The stock, however, is a good long-term bet on Canada's housing market. With rising population, immigrant inflow, and the lack of housing supply, Canada's housing fundamentals remain strong. HCG stock has a good potential to offer hefty capital gains if you plan to remain invested for the next five years.

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