



Could Home Capital Group Inc. (TSX:HCG) Be a Millionaire Maker Stock?

Description

Trading at a fraction of its 2014 highs (down 70%), and significantly below [book value](#) (0.7 times P/B multiple), **Home Capital Group Inc.** ([TSX:HCG](#)) has certainly been a disaster for shareholders.

But after this fall, are you wondering if the Home Capital Group stock is now a millionaire maker stock?

There have been good signs, that's for sure, but there also continues to be a lack of real visibility, and big risks in their business.

Let's discuss this.

Back in 2017, Home Capital was reeling from accusations of mortgage fraud, which sent the company into a liquidity crisis as shaken confidence, a run on deposits, and questions about Canada's housing market had investors running.

While the company has done much to improve its liquidity and capital structure, things are not even close to being better, as we cannot escape the fact that this company is very tied to the Canadian housing market, which is at risk.

Home Capital's business is a risky one even in the best of times, as its most significant business is providing residential mortgages across Canada to borrowers that do not meet the criteria of the major Canadian banks.

This includes customers who are self-employed, those without a credit history, and those with previous credit issues, to name but a few examples.

On the flip side, while this business is more risky, it also affords the company the ability to charge higher interest rates, thus driving profitability.

So is the stock price too low and does it therefore represent a great buying opportunity?

With earnings and cash flow expected to recover in the next few years, Home Capital is shifting its

focus on returning excess capital to shareholders by buying back shares and possibly re-introducing the dividend in 2019.

Both of which will slowly bring investor confidence back and will provide support for the stock price.

For its part, Berkshire Hathaway, aka [Warren Buffet](#), has sold the bulk of its Home Capital stock and has shifted its focus elsewhere. They did very well on the trade, and decided there is better opportunity elsewhere.

I tend to agree.

While I would love to say that the stock will be the millionaire maker, there is too much risk looking ahead as the mortgage market in Canada has become a very different beast than it once was.

New government regulations that are making it more difficult to qualify for mortgages have certainly done what they intended to do.

Final thoughts

In summary, I think investors are better off looking elsewhere for the next millionaire maker stock, as the opportunity in Home Capital does not represent an attractive risk/reward tradeoff at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/20

Date Created

2019/02/22

Author

karenjennifer

default watermark