



Why This Warren Buffett Stock Surging After He Exited His Position

Description

[Home Capital Group Inc.](#) ([TSX:HCG](#)), a Canadian mortgage lender rescued by Warren Buffett's **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) in 2017, is having a comeback, which is surprising many investors.

The stock is up more than 80% this year, defying many short-sellers who predicted the demise of this non-bank lender at the peak of the Canadian housing boom in 2017.

The rebound in HCG stock came after Warren Buffett's investment firm sold its stake in the lender in December, prompting some analysts to question the move, as the world's most successful value investor missed on an opportunity to make hefty returns after he rescued HCG from its deep liquidity crisis.

The truth is that Canada's real-estate market has been quite a tough call to make. Stocks that were linked with the nation's housing market remained under pressure amid speculations that the market will collapse, bringing some top mortgage brokers with it.

Strong mortgage demand

In its efforts to avoid hard landing of the housing market, the government tightened mortgage rules, making it tougher for borrowers to get money from the nation's largest banks.

But that situation proved quite beneficial for alternative mortgage lenders, such as Home Capital, which aren't required to follow the tough lending rules. While [Canada's largest banks](#) struggled to win new mortgage business, non-bank lenders benefited from this shift in the market dynamics.

Alternative lenders, which largely cater to home buyers who don't qualify for loans at big banks because they are either self-employed or lack a credit history, attracted that class of borrowers.

The Toronto-based Home Capital was rescued by Warren Buffett's Berkshire Hathaway in the spring of 2017 by providing about \$400 million in equity. Eighteen months later, Warren Buffett offloaded most of its shares in the mortgage lender by taking part in the share buyback scheme at the price of \$16.5 a share.

Trading at \$26.40 at the time of writing, its stock has surged more than 80% this year. If that trend continues, Home Capital stock has more room to the upside. Just before the 2017 liquidity crisis, HCG stock was trading close to \$30 a share, while its five-year high was more than \$50 a share.

Bottom line

It won't be easy for this lender to regain the full glory after such a massive setback to its loan book, but I won't be surprised to see a gradual recovery in its stock price if the Canadian economy remains strong and the big banks continue to lose their share in the home lending market.

CATEGORY

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Author

hanwar

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