



A Warren Buffett Stock to Buy Even After its 130% Rally This Year

Description

Home Capital Group ([TSX:HCG](#)), a Canadian mortgage lender rescued by Warren Buffett's **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) in 2017, is gaining its lost ground so fast that it's proved many forecasters wrong.

The Toronto-based mortgage lender, which typically serves borrowers who can't get funding from banks, has soared more than 130% this year, just two years after it was rescued by Warren Buffett, whose firm provided liquidity and a credit line of about \$2 billion at a time when HCG was close to bankruptcy.

What is driving its stock price higher is the rebounding housing markets in Canada and lower borrowing cost. In the earnings announcement this month, Home Capital said profits on a per-share basis surged 63.4% in the third quarter, beating estimates with a big margin.

That eye-popping turnaround reflects the strength of Canadian housing market where buyers are back and increasingly borrowing from non-bank lenders, such as HCG, after the government tightened mortgage rules for the nation's top five banks to curb speculation.

"Today, we have all the elements in place for sustainable value creation," Yousry Bissada, Home Capital's chief executive, said in a call with analysts on Nov. 13. Apart from the housing surge, Canadian economy remains strong with a low rate of unemployment and a strong flow of immigrants who have become one of the key players in the housing market.

Home markets rebounding

Another encouraging sign for Home Capital has been that home buyers are back in the single-family mortgage segment where the lender has a strong market position. Loan originations from that segment increased about 17% year over year, reflecting a pick-up in sales in its core Greater Toronto Area market.

At the same time, credit quality was stable and quarterly profit easily surpassed analysts' expectations. Net income for the third quarter ended Sept. 30 was \$39 million, or \$0.67 cents a share, up from \$0.326-million, or \$0.41, in the same period last year.

The Toronto-based Home Capital [was rescued by Warren Buffett's Berkshire Hathaway](#) in the spring of 2017, which provided 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 \$34.31 at the time of writing, its stock has been trading close to the analysts' 12-month price target of \$36.39. If Canada's housing market remains strong and the borrowing cost low, 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 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. The resumption of dividend is a next step for the lender to claim its full glory and make its investors happy.

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