Why the Home Capital Stock Price Fell 43.6% in March

Description

When looking at the performance of the Home Capital stock price in March, we have to look no further than the coronavirus selloff. In fact, that is true for all stocks. This coronavirus battle is being waged in every corner of the world, and simply put, all values will be hit. The Home Capital Group stock price lost 43.6% of its value, and the **TSX Composite Index** lost 17.7%

For companies, it is a matter of survival. Those companies that have the government support and financial capability to come out of this disruption will emerge strong.

As the virus fades into history, many companies will eventually emerge out of this shutdown strong. But let's be clear, not all companies will survive this. The macro environment has turned decidedly precarious even for the most quality companies out there.

And Home Capital Group had its problems even before this latest crisis. Let's look at this situation in more detail.

Home Capital stock price falls on coronavirus shutdown

The virtual economic shutdown that has occurred in economies globally is a massive event that will have financial implications for all companies. The shutdown will touch on all areas either directly or indirectly through lower consumer and company cash flows.

For Home Capital, what was once only recently a successful turnaround story, is now a story of caution. Let's review the comeback that was taking shape prior to recent events. The company's latest results showed strengthening fundamentals and steady credit metrics.

An improving Canadian real estate/mortgage market was lifting the company up and its stock price was reflecting this. Today, with the sharp deterioration in the Canadian economy, the outlook is not so hopeful or bright.

Deteriorating economic conditions and deteriorating credit worthiness will hit Home Capital hard. This is not a financial company that has the benefit of diversification. It is a one-trick pony, and all of its eggs are in the mortgage/real estate market.

Further, Home Capital's business is a risky one even in the best of times. This is because of its residential mortgage profile. The company provides mortgages to borrowers that don't meet the criteria of the major Canadian banks.

The Home Capital stock price falls on deteriorating credit worthiness

Home Capital is one of those companies that will see a major deterioration in financials as a result of this crisis. Many of its mortgage holders will see a deterioration in credit worthiness. This will result in the company having to recognize huge losses in the near term. It won't be a pretty sight for Home Capital stock price.

Furthermore, part of the appeal of Home Capital stock in recent times was management's focus on returning capital to shareholders. With this gone, demand for the stock will certainly dry up and investor sentiment will remain negative.

Foolish bottom line

Home Capital Group stock price took a beating in March. This is to be expected given the disruption and the toll that the coronavirus is taking on the Canadian economy.

Today, we should all be focusing on those quality companies that have a buffer to all this mayhem. These companies can be snatched up at relatively cheap valuations, yet their existence is not at jeopardy. Home Capital is not one of these companies.

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