Why Home Capital (HCG) Stock Rose 8% in September

Description

It's been quite a year for shareholders in Toronto-based **Home Capital** (TSX:HCG), one of Canada's leading alternative mortgage lenders.

Home Capital Group's stock gained more than 8% from its intra-month lows in September, and has now gained over 41% since the start of June. The company has continued to benefit from a strong Toronto real estate market.

During the second quarter, single-family residential originations at Home Capital grew by 15.6%, while total loans issued also grew, by 9% compared to the same period last year.

Last year, concerned by the possibility of an overheating housing market, the federal government enacted several pieces of legislation that made it more difficult for Canadians to buy homes, particularly for first-time homebuyers. Now, close to a year later, however, those restrictions have begun to roll off. So far, the results have been mostly positive for homeowners and lenders alike.

Demand for housing has begun to show signs of life again this fall, particularly in the Toronto market. Prices reached near-record levels in September.

Home Capital Group has reported that since the implementation of the new regulations, which are referred to as the B20 rules, not only are its approved customers showing higher credit scores but it's beginning to win more business from customers with better overall credit histories.

That's an overall win both for Home Capital Group as an alternative lender, and for the entire real estate market as well. For the most part, Canada's real estate market continues to be a fairly conservative lending and real estate market, which could be put at risk by loose credit standards and negligent underwriting.

Readers who are not familiar with Home Capital's tumultuous past may want to catch up with a brief history lesson. The story that besieged Home Capital and its shareholder base, including how the world's most famous investor Warren Buffett ultimately stepped in to save the day, makes for interesting reading.

Meanwhile, Home Capital Group stock closed Tuesday at just under $25 per share, and today still trades well below its all-time high from 2014, which at one point briefly touched north of $50 per share.

Foolish bottom line

However, despite the fact that the HCG stock still trades well below its all-time highs just north of $50 per share, I don't know that this presents a buying opportunity.

Of course there are exceptions to the rule, but typically stocks don't typically move up (or down) in straight lines, and as such, it could be that some of those investors who were fortunate enough to have been participants in HCG's great 2019 rally may be looking to lock in and cash out on at least some of those gains while the opportunity is there.

Personally, I wouldn't be all that surprised we were to see a modest pullback in Home Capital stock, potentially even before the year is over, to something in the neighbourhood of $18 or thereabouts. That would be the time I would be looking to initiate a position in this particular company.

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