

**WHAT THE BROKERS SAY ABOUT CANADIAN STOCKS****LIGHTYEAR CAPITAL**

# Home Capital undervalued

*Canada's leading alternative mortgage lender*

*From a recent report by analyst Jason Donville.*

**H**ome Capital Group (HCG.B-TSX, \$11.50, 800-990-7881, [www.homecapital.com](http://www.homecapital.com)) is rapidly emerging as one of Canada's premier financial services institutions.

Over the past five years, Home Capital has delivered financial returns that are the envy of the industry, while exposing investors to modest and manageable levels of risk. We expect Home Capital to continue its run and for investors to be similarly rewarded.

The company is Canada's leading alternative mortgage lender, and enjoys the highest margins, growth rates and returns on shareholders' equity among Canadian financial institutions for several reasons.

First, the Canadian residential mortgage market has been, and will continue to be, an attractive place to do business, and Home Capital faces only modest competition in its market niche.

Second, the residential real estate market in Canada has been relatively buoyant over the past three or four years and is expected to re-

main reasonably strong in the coming years, given an extremely tight rental market across the nation.

Finally, strong management and prudent internal controls will ensure that Home Capital continues to earn the highest margins and rates of return of any mainstream lending institution in Canada, while at the same time ensuring that loan losses remain modest.

Home Capital has performed well over the past year and we expect the company to continue to outperform the financial services sector over the next three years.

## Highest returns

While the residential housing market has been one of the few bright spots in the Canadian economy over the past few years, the case for continued growth remains in place.

With national rental vacancy rates hovering around one per cent, and the differentials low between owning and renting, housing starts should continue to be buoyant over the next three years.

Relatively strong immigration rates will also ensure that housing demand remains strong through

2005. The residential lending market is attractive and characterized by relatively high and consistent growth.

Over the past five years, Home Capital has earned the highest return on average equity and the highest return on average assets of any publicly listed lending institution in Canada. These returns have been achieved even though the company has the lowest leverage in the industry.

And we also believe that Home Capital is undervalued. Given the company's superior rates of return and growth, we would expect Home Capital to trade at a premium to the Canadian financial services sector — but it doesn't.

Currently, Home Capital trades at a discount to the sector, and assuming that it holds this multiple, we would expect Home to trade at \$16.75 within 12 months.

However, if we value the company in relation to its growth, we would derive a 12-month target price of \$21.40 a share.

We expect that Home Capital will trade somewhere between this range and have derived a 12-month price target of \$19 a share. We continue to rate HCG.B a strong buy.