



Revealed: 3 Top Non-Bank Financial Stocks

Description

Canada's banks get all the attention, and perhaps rightfully so. After all, they've made a lot of investors rich.

The reasons behind that staying power are why bank stocks have done so well. Canada's so-called Big Five banks have a commanding +80% market share. They've diversified over the years from savings and loans into true financial conglomerates, offering everything from wealth management to insurance to capital markets services. They've reinvested Canadian profits into foreign operations, which helps shield them from any Canada-specific problems.

This doesn't mean other financial companies can't succeed. In fact, the banks' dominance actually opens the door for smaller specialty financial companies. These firms eventually grow into having a dominant position in a niche part of the market that simply isn't important enough to bother a big bank.

Royal Bank has a market cap of \$140 billion. If it misses a few hundred million worth of business here and there, it's not a big deal. Compare that to a company with a \$200 million market cap, which salivates at that kind of opportunity.

Here are three great non-bank financial stocks that are compelling investments today.

Goeasy

Goeasy Ltd. ([TSX:GSY](#)) gives small loans to people the average banker wouldn't deal with. These are incredibly risky loans with big default rates, but the interest rates charged reflect that. A 46% APR might seem excessive to you or me, but it's reasonable when compared to the alternative — a payday loan at 15% for two weeks.

The alternative credit market has been growing like a weed. In 2013, Goeasy delivered \$14.2 million in profits on \$218.8 million in revenue. The top line grew nearly 60% over the last three years, coming in at \$347.5 million in 2016. Profits more than doubled, hitting \$31.1 million. Analysts expect the growth to continue in both 2017 and 2018.

Despite the growth potential, Goeasy only trades hands at 15 times trailing earnings and 11 times projected 2017 earnings. That's an unbelievable valuation for a company with such promise.

Canaccord Genuity

Something interesting happens with **Canaccord Genuity Group Inc.** ([TSX:CF](#)) shares every few years. They fall to about \$5 each when investors start to get nervous about the capital markets. It happened in 2009, 2012, and again today.

Each time, shares were much higher two years later. I firmly believe that will happen again for investors who get in today.

Canaccord struggled in 2016 because Canada was a wasteland for capital markets activity. The first quarter of 2017 has already been better than all of 2016. In addition, Canada's energy companies have been busy buying assets and making deals. That activity should be a positive for Canaccord.

The balance sheet is certainly strong enough to weather this temporary storm, and the company has posted healthy free cash flow in the last 12 months.

E L Financial

E L Financial Corporation Ltd. ([TSX:ELF](#)) gets virtually zero attention from investors despite having a market cap of more than \$3 billion.

One reason is a lack of liquidity. Only 618 shares trade hands on a given day. The good news is, with a current price of \$835.90 per share, the average retail investor only needs to buy a handful of shares to get a decent-sized position. In addition, companies related to the Jackman family own some 72% of outstanding shares.

This lacklustre trading market is good news for smaller investors. E L Financial is likely Canada's cheapest insurance company. Shares trade at a significant discount to book value — which is \$1,245 per share — and at only 11 times trailing earnings. Such aggressive insider ownership is a plus too; it's always a relief to know management has a vested interest in the company. They want their shares to go up just as much as investors do.

The bottom line

Companies such as Goeasy, Canaccord, and E L Financial don't get nearly as much attention as Canada's banks. But they're all solid investments in their own unique ways. It's time for investors to think outside the box a little. It just might make you richer.

CATEGORY

1. Bank Stocks
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1. Editor's Choice

TICKERS GLOBAL

1. TSX:CF (Canaccord Genuity Group Inc.)
2. TSX:ELF (E-L Financial Corporation Limited)
3. TSX:GSY (goeasy Ltd.)

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