



In the Wake of the Home Capital Group Inc. Crisis, Will Investors Give Goeasy Ltd. a Chance?

Description

The financial markets in Canada are still reeling from the sharp slide of embattled alternative lender **Home Capital Group Inc.** ([TSX:HCG](#)), spurred by the idea that the once rock-solid housing market in Canada may be a little less stable than once thought. With much discussion now centering on whether a housing crisis may or may not happen, investors seem to be somewhat uncertain as to how companies like **Goeasy Ltd.** ([TSX:GSY](#)) will fare in the near to medium term.

What does Goeasy do?

Goeasy offers a range of alternative lending and financial products to consumers, offering short-term loans and leasing arrangements for household goods bought at major Canadian retail stores. The company's share price is down nearly 30% from its all-time high in April; however, this is largely due to widespread concerns about overall Canadian credit quality and the ability of the firm to grow, given current debt saturation levels in the Canadian market.

Insiders have been buying into Goeasy's stock recently, believing the dip is temporary and the company's long-term outlook is positive. Here's my take on why that may not be the case, and why Canadian investors should remain very cautious with this name.

Do Canadians really have that much debt?

Traditionally (over the long run), the answer has been no, and the average Canadian has been much more frugal than most other Western nations in how they budget and save for retirement. In recent years, however, real estate has begun to make up a larger and larger percentage of the average Canadian retiree's portfolio, making the thought of a housing bubble very scary for investors across the country.

As it turns out, Canadians have really ramped up consumer spending following the Financial Crisis (a big positive for Goeasy), with the vast majority of such spending linked to increased consumer debt loads.

According to OECD data, the average Canadian owed 175% of his or her disposable income in the form of debt in 2015, with the average American owing only 112% of his or her disposable income. This trend has been reflected in the way the housing market has “reset” somewhat in the U.S. market, with the massive 40% drop (give or take) in house prices across the board providing U.S. consumers with smaller, more manageable mortgages. House prices in Canada have taken brief pauses, but they have not reset, resulting in a situation where studies have shown the nearly one in three Canadians would be in financial trouble should interest rates rise only 1%.

What does this mean for Goeasy, or the average investor?

Companies that are tightly tethered to consumer spending in Canada may feel the brunt of any realized drop in the Canadian housing market. The risks are real with a company like Goeasy, and, at this point, any investment in the company involves some aspect of speculation — primarily, speculation that consumer debt loads will be able to continue to increase indefinitely. I just don’t believe that such a situation is possible, or prudent, long term.

Stay Foolish, my friends.

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Date

2025/08/02

Date Created

2017/09/01

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