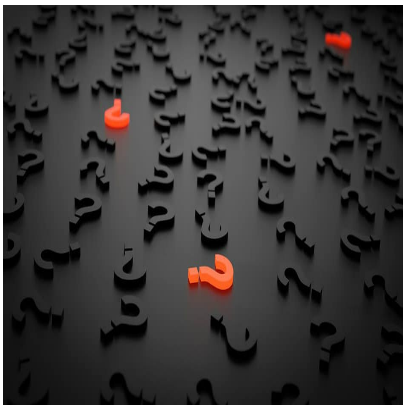

Payday Loans Are Catching the Eye of Regulators: Will These Stocks Benefit?

Description

Hoyes Michalos & Associates, a Toronto-based insolvency trustee firm, released a report stating that 31% of insolvent borrowers used payday loans in 2017, up from 27% of insolvent borrowers who used the service in 2016.

The Province of Ontario capped interest rates payday loans effective January 1. Public policy think-tank Cardus Work & Economics was critical of the move, as it doesn't borrowers any viable alternatives. Cardus did praise the province for allowing credit unions to act as an alternative to payday loan shops.

Rising interest rates have started to crunch the budgets of many Canadians, especially as the country struggles with record household and consumer debt. A report from the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) showed that a portion of consumers have been paying down debt during the rate tightening period. However, the rise of alternatives in recent years could prove beneficial to those on the hunt for entities that offer far better interest rates than do predatory cash stores. This could be doubly helpful to younger tech-savvy consumers as fintech companies begin to offer these essential financial services.

Goeasy Ltd. (TSX:GSY) is a Mississauga-based company that provides goods and alternative financial services in the form of unsecured installment loans. Goeasy offers these services to consumers who often possess poorer-than-average credit and are unable to buy expensive appliances outright. The stock is down 4.3% in 2018 as of close on February 15, but shares have climbed over 230% over a five-year period.

Goeasy is set to release its 2017 fourth quarter and full-year results on February 21. In the third quarter, Goeasy saw a 55.9% increase in loan originations to $157.6 million. The loan book experienced 172.7% growth compared to Q3 2016. Revenue rose 32.4% to $69.7 million, and the company reported net customer growth of 9,095 – a 337% increase from Q3 2016. Goeasy also saw cash generated from easyfinancial customer payments rise to $118.3 million in comparison to $89 million in Q3 2016.

The company also delivered a dividend of $0.18 per share, representing a 2% dividend yield. Goeasy is an attractive long-term hold that stands to benefit from consumers who may turn away from payday loan shops in the future, given that it offers a viable and cheaper alternative.

Mogo Finance Technology Inc. (TSX:MOGO) is a Vancouver-based fintech company that offers personal loans, identify fraud protection, and other services to its online customers. Shares of Mogo Finance have plummeted 23.3% in 2018. In early January, Mogo announced that it would lease bitcoin machines and launch Mogo Blockchain Technology.

Peer-to-peer lenders like Mogo tend to be more expensive than bank loans, but are still a far better value than payday loans. The rates are often unique to the lender, and in the case of Mogo, your rate is determined by your credit score; the better it is, the lower the rate. Mogo also offers credit score viewing, which may help consumers better manage their credit going forward.

In the 2017 third quarter, Mogo saw revenue rise 10% year over year to $12.6 million and gross profit margin increase to 68% of total revenue. Gross loans receivable grew to $74.7 million compared to $69.6 million at the end of the second quarter. Mogo is set to release its fourth quarter and full-year results in early March. The company expects to reach 800,000 to 1 million members by the end of 2018.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing
4. Tech Stocks

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:GSY (goeasy Ltd.)

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