Goeasy Ltd: A Canadian Dividend Aristocrat?

Description

Goeasy Ltd. (TSX:GSY) is a services company that provides loans and alternative financial services and leasing household products to consumers. The company's Canadian footprint consists of approximately 220 easyfinancial locations and 170 easyhome stores. Easyfinancial accounts for 67% of revenue, while easyhome, Canada's largest lease-to-own company, accounts for 33% of revenue. The company has been rewarding investors with double-digit earnings and dividend growth over the past several years.

This week, the company reported record fourth quarter and year-end results. Revenue increased by 18.9% and its consumer loan portfolio climbed 42.1% year over year. The company's growth has been driven by its recent expansion into the Province of Quebec and its entry into a new segment of loan products. These two initiatives are expected to continue to drive growth over the next few years.

Goeasy is shareholder friendly and typically provides three-year targets along with its annual results. The company is targeting revenue growth of between 18% and 20% in 2018, 14% and 16% in 2019, and 10% to 20% in 2020. Return on equity is expected to reach 20%+ by 2019 and net charge-offs as a percentage of gross consumer loan receivables are expected to dip below 12%. The improvement in net charge-offs is reflected in its focus on improving the quality of its loan portfolio.

Goeasy also announced a new quarterly dividend of $0.225/share, representing a hefty 25% dividend hike. It marks the fourth consecutive year in which the company has raised dividends. The company's payout ratio is a respectable 37.6%, with has ample room for continued growth. As a result, the company is well positioned to become a Canadian dividend aristocrat. Achieving this status offers added benefits, such as its stock being added to several dividend growth funds and indexes as well as increased interest from retail investors.

When compared against future earnings growth, the company is currently trading below value. It currently has a P/E to growth (PEG) ratio of 0.5 based on earnings estimates for the next two years. A PEG under one typically signifies that the company's share price is not keeping up with its earnings growth and is considered undervalued.

Bottom Line

Since 2001, Goeasy has grown revenues and earnings by a compound annual growth rate of 12% and 29%, respectively. Over the past five years, the company has not missed its posted financial targets. As a result, I am confident that this impressive performance will continue well into 2020. The company has ample room to capture market share in the $165 billion non-prime consumer credit market. Dividend growth investors should get in today before it reaches aristocrat status and becomes well known by the broader market.

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