This Stock Will Provide Growth and Income Over the Next Decade

Description

Goeasy Ltd. (TSX:GSY) is an alternative financial services company based in Mississauga. This summer I'd discussed why Goeasy was a perfect target for millennial investors.

The harsher rate environment has made it more difficult for Canadians to borrow over the past two years. This trend has received a good deal of exposure in the housing sector. New OSFI mortgage rules that imposed a stress test for uninsured borrowers took effect in January 2018. Mortgage Professionals Canada recently estimated that over 100,000 Canadians had been frozen out of purchasing a home because of the new rules.

Goeasy offer merchandise leasing of household furnishings, appliances, and home electronic products to consumers through weekly or monthly leasing agreements. It also offers unsecured installment loans. Alternative lenders are often an option for Canadians who are rebuilding their credit, and these institutions can also be useful for individuals in precarious work.

The company released its third-quarter results on November 7. Revenue rose 26.5% year-over-year to $130 million on the back of growth in the easyfinancial consumer loan portfolio. The consumer loan portfolio grew to $750 million at the end of the third quarter, up 58.5% from the prior year.

Loan originations rose 40.5% year-over-year to $221 million, which was largely due to rising demand for the core unsecured loan product. The company also expanded its risk adjusted rate loans and experienced growth in its loans through easyhome leasing stores.

From a distance it was another solid quarter for Goeasy, but the share price took a tumble following the earnings release. Analysts took aim at the credit quality at Goeasy, which is typically a concern for alternative lenders. The average weekly delinquency rate at easyfinancial throughout the quarter stood at 4.4%, which was flat year over year.

Overall, net external debt to net capitalization was reported at 68% as at September 30, 2018, which is below the company's target leverage ratio of 70%.

However, consensus ratings are still very positive, and the company looks poised to double the size of its loan book by the end of FY2020. Goeasy projects the gross loans receivable portfolio to reach between $1.3 billion and $1.4 billion by that time.

It also forecasts revenue growth of 20% or more for the next two years and between 14% and 16% for FY2020. Its guidance is something worth monitoring in the fourth quarter after some key indicators slipped below desirable levels at the end of Q3.

The board of directors announced a quarterly dividend of $0.225 per share payable on January 11, 2019. This represents a 2.2% yield. Considering Goeasy's growth in recent years – the stock has climbed 92.5% over a three-year period – its income is icing on the cake for long-term investors.

Goeasy nearly slipped into oversold territory after its post-earnings dip, but its RSI currently sits at 35. Taking into account its long-term trajectory, Goeasy comes at a nice price for investors with a long time horizon. It is a worthy stock in a volatile market.

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