Buy This Stock to Gain From the Canadian Credit Crunch

Description

This time last year, I'd discussed the push by the Bank of Canada and other central banks to pursue rate tightening in response to improved growth. At that time, the Bank of Canada set its neutral target between 2.5% and 3.5%. As I'd explained in the article, there was reason to be skeptical the bank would approach even the low end of this target any time soon.

Since that article, the Bank of Canada has moved forward on two hikes for the benchmark rate of 0.25% each. The benchmark rate now stands at 1.75%, which is still historically low. Oddsmakers have lowered the odds of a rate hike in 2019 as Canada contends with slower growth.

The central bank has pursued a cautious path in tightening rates, but moderate increases are still putting major pressure on Canadians. **Equifax** Canada recently released fourth-quarter data that showed delinquencies were up towards the end of the year. Bill Johnston, vice president of data and analytics at Equifax Canada, expects that this will "become the norm in 2019."

The Office of the Superintendent of Bankruptcy Canada released a report that revealed insolvencies among consumers rose 7.2% year over year in the month of January. Outright bankruptcies rose by just 1.3%, while proposals climbed 11.5%.

Add to these pressures new mortgage regulations and softening wage growth. Many consumers are looking to alternative lenders in this environment. Today, we are going to look at a stock that will continue to thrive as these pressures weigh on consumers into the next decade.

goeasy (TSX:GSY) is a Canadian company that provides leasing agreements for furniture, electronics, and appliances, and offers unsecured installment loans. Shares of goeasy have climbed 23.5% in 2019 as of early afternoon trading on March 13. The stock is up 11% year over year.

In the summer of 2018, I'd picked goeasy as my top stock for millennials. The stock offers an appealing balance of growth and income and is thriving off trends that have a great impact on the millennial demographic. Shares have soared 132% over the past three years.

goeasy thrived in what was a difficult fourth quarter for many companies in the financial sector.

Revenue rose 29% year over year to $138 million, and the company generated $265 million in loan originations. This was a record for the quarter. Net income increased 15.9% year over year to $15.9 million.

For the full year, goeasy generated loan originations of $923 million, which was up 59% from the prior year. Total application volume increased 26% in Q4 2018 at easyfinancial, and 62.5% of net loan advances went to new customers. The company projects total revenue growth between 20% and 22% in fiscal 2019.

Investors were presented with a golden opportunity to stack goeasy back in late December. Fortunately, the stock still offers reasonable value today. It is trading at the middle of its 52-week range and boasts an RSI of 57. It is not trading at a discount, but those investing for the long term can easily justify adding the stock to their portfolios today.

CATEGORY

1. Investing

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1. Editor's Choice

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Date
2025/08/15
Date Created
2019/03/13
Author
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