A Top Banking Stock That Is up by 55% in 2019

Description

The Big Five dominate the banking industry. They also dominate investors' portfolios. However, Canada's top banking stocks have been underperforming as of late. Year to date, the Big Five have averaged a 9.5% return.

In comparison, the TSX has gained almost 16% in 2019. At the centre of growing issues is high consumer debt loads. By their very nature, the big banks are conservative and have tighter lending requirements. Coupled with new and tighter mortgage rules, consumers with little to no credit have been forced to turn to alternative lenders.

Banking alternatives such as **goeasy** (TSX:GSY) have proven and sustainable business models. For years, the industry was under pressure due to the **Home Capital Group** mortgage scandal. However, investors are once again warming up to these companies.

Strong performance

I have brought goeasy to investors' attention several times in the past. Why? It was significantly undervalued, despite a history of strong performance. Since 2011, the company has never missed on guidance. Likewise, it has beat earnings estimates in three straight quarters. The company is consistently underappreciated.

It is therefore not surprising to see that goeasy's share price is up a whopping 55% in 2019. Over the past two and five years, shareholders have enjoyed capital gains of 101% and 171%, respectively.

A divided-growth stock

The good news doesn't stop there. Thanks to its strong performance, the company is on the verge of joining exclusive company. In March, goeasy raised dividends by 37.78% — the fifth straight year in which it raised dividends.

As a result, it will be added to the Canadian Dividend Aristocrat list in 2020. This will increase its exposure and the stock's liquidity as it gets added to funds that track the list.

The dividend has grown at a compound annual growth rate of 21.5%, which is among the top 10 dividend-growth rates in the country. The best part? It has a low payout ratio of 23% when compared against next year's earnings. As such, investors can expect continued double-digit dividend growth.

Foolish takeaway

Don't shy away from the company simply because it has had a nice run-up. The company is still cheap, especially when compared against expected average annual growth rates of 40% over the next few years.

goeasy is trading at only 10.76 times forward earnings and at a P/E-to-growth (PEG) ratio of 0.35. A PEG under one is a sign that the company's stock price is not keeping up with expected growth rates. The stock is thus considered undervalued.

An investment in goeasy is a great way to build income without sacrificing growth and at a great value. The stock is a rare triple threat.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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1. TSX:GSY (goeasy Ltd.)

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