2 Financial Services Stocks That Offer Special Opportunities

Description

Specialty finance is a great industry to be invested in, although it's inherently more risky than regular banking and lending, for those who are willing to do it and can manage a quality loan book, the profits are available.

Over time, great companies are able to manage the bad debts and budget them into their margins to continue to operate profitably. The great managers will be more stringent with risk management, especially in times when it seems like the economy is at the top of the cycle.

Two Canadian companies operating in the specialty finance segment that are making huge returns are **Chesswood Group** (TSX:CHW) and **goeasy** (TSX:GSY).

Chesswood

Chesswood is a small company with a market cap of only $160 million. It's based in Toronto and is a specialty finance company. It primarily engages in equipment and vehicle leasing and financing. Chesswood owns a portfolio of financial services businesses, each with their own niche market. The company owns four major companies.

Pawnee Leasing is headquartered in Colorado. It's the largest company in Chesswood's portfolio. The business was started in 1982 and is a leader in commercial equipment financing to small businesses across America. Pawnee is so large it accounts for 80% of Chesswood's income.

Blue Chip Leasing provides equipment financing for small- and mid-sized businesses and operates in Canada.

Northstar Leasing is Chesswood's non-prime equipment finance business in Canada. After the purchase of Blue Chip, Northstar was amalgamated into BlueChip as the non-prime operator in Canada.

Tandem Finance is the last of the companies. It's headquartered in Houston and provides leasing to all credit categories across the United States.

These companies make up Chesswood's portfolio and provide the stellar returns the company has seen in the past. What makes Chesswood so attractive is its very cheap valuation, currently trading at just 8.7 P/E ratio. It also pays a huge dividend yielding ~8.5% at a payout ratio of just 72%. In addition, insiders own a substantial amount, which is always positive.

The stock has been mostly treading water lately, as the company is somewhat misunderstood. Although it's in a higher-risk segment of the market, the leasing portfolio is managed really well, which limits downside pressure from rising credit losses and rising interest rates. It isn't a super-growth stock, but it's one that will grow slow and steady, all while returning cash through the dividend. The consistent return on equity in the mid to high teens make this a must-own stock for your portfolio.

goeasy

goeasy is also a specialty finance company. It deals mostly with non-prime consumer credit. It has over 400 locations across all 10 provinces. Over 90% of the loans it originates are unsecured personal loans.

goeasy got its start as easyhome, and it still runs easyhome today as one of its businesses. easyhome, which leases home furniture, does less than 15% of total company operating income.

The loans are definitely high risk, but goeasy has done a brilliant job managing the risk. It has managed to keep its charge-offs consistent, which has helped to estimate losses and budget that as an expense. Currently, charge-offs would have to rise to 24% of all loans before the company hit the breakeven point and began to lose money.

It pays a 2.3% dividend, but the real reason to buy goeasy is for its incredible growth. The loan book has grown at an astonishing 43% compounded annual rate since 2014. What's even more impressive is that per-share earnings have grown from $1.34 in 2014 to $3.56 in 2018.

The business is evidently highly profitable; the return on equity was 24.4% in the first quarter of 2019. This has allowed the company to expand quickly.

The bottom line

Both companies offer investors a unique opportunity. goeasy is a high-growth company that comes with more risk but also earns 25% on equity. Chesswood is a much more stable company with an attractive 8.5% dividend, but it doesn't offer the same growth opportunities. The choice is yours.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CHW (Chesswood Group)
2. TSX:GSY (goeasy Ltd.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/16
Date Created
2019/07/06
Author
danieldacosta