Investors: Why You Need to Add This Financial Growth Stock to Your Portfolio

Description

When you think about Canada's top financial companies, it's possible that people might overlook **goeasy Ltd** (TSX:GSY). This stock has been a stellar performer over the years. goeasy has returned 132.5% in the last five years, outperforming broader indices. The stock is trading flat in the last 12-months and 41% year to date.

But the rally for goeasy investors is set to continue; goeasy has a simple business model. The company provides loans ranging from $500 to $35,000 via more than 200 locations across the country.

Here we look at goeasy's cheap valuation, key drivers and revenue outlook.

Why is goeasy undervalued?

Analysts expect GSY to expand revenue by 20% from $506.2 million in 2018 to $606 million in 2019. Sales are also estimated to grow 15.5% to $700 million in 2020 and 11% to $775 million in 2021. GSY earnings are expected to grow at a higher rate.

Analysts expect earnings to rise by 57.5% in 2019 and 25.1% in 2020. Compare this to GSY's forward price to earnings multiple of 10 and we can see that the stock is trading at a cheap valuation, especially after accounting for its dividend yield of 2.5%.

GSY is valued at $763 million, which is 1.2 times 2019 sales. GSY stock is cheap, undervalued and is set to experience robust growth going forward.

During GSY's remarkable bull run in the last five years, the company managed to grow earnings at an annual rate of 31%.

goeasy has a history of strong growth

The company has experienced revenue growth in the last 17 years, growing grow sales at a compound annual growth rate (or CAGR) of 12.7% between 2001 and 2018.

GSY revenue has grown from $65.9 million to $506.2 million in this period. Revenue growth has in fact accelerated to 18.3% annually in the last 5 years.

Comparatively, its net income has risen at a CAGR of 29% between 2001 and 2018 — a staggering figure, to stay the least. The stock has returned 6,200% since 2001, creating significant shareholder value.

Enviable financial metrics

goeasy is optimistic about meeting long-term financial targets. There are enough and more opportunities for growth and expansion. It has diversified sources of revenue and expects the high growth lending segment to complement its mature leasing business.

The company has a strong balance sheet and a robust risk management framework. Its net debt to capital ratio stands at a healthy 67%. The board of directors and management own 28% of goeasy, indicating strong optimism.

The company has valued the non-prime consumer credit market in Canada at $223 billion. In the second quarter, goeasy generated $276 million in total loan originations, a growth of 18% year over year. This growth contributed to a 40% increase in the company's loan portfolio, which stood at $960 million.

The verdict

It certainly looks like goeasy will continue to build shareholder wealth at a robust pace. The company has several locations across Canada and continues to expand its domestic reach. It has focused on customer service, reporting that over 96% of its customer are satisfied — a higher figure than that of other financial services companies.

The stock is bound to trade at higher multiples sooner rather than later, making this company an attractive investment at the current price.

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