How This Niche Finance Company Tripled Investor Wealth in 3 Years

### Description

If you've never heard of Mississauga-based **goeasy** (TSX:GSY), you're not alone. I wouldn't be surprised if this $865 million company fell under the radar of most investors. However, goeasy has been quietly expanding its business and delivering phenomenal results for investors over the past three decades.



When it was featured on the recently published TSX 30 list, it caught my attention. Early investors in the company have tripled their money since 2016 and more than quintupled their capital since 2009.

By all accounts, this is one of the fastest-growing companies on the Canadian stock exchange. So, here's a closer look:

## Subprime lender

There's no polite way to say this, but goeasy is the corporate version of a legitimate loan shark. The company offers cash to borrowers with bad or non-existent credit, and charges them an exorbitant interest rate to cover the risk.

The annual interest rate on the company's typical loans could be as high as 46%, which is well within the legal limit of 60%, but unbelievably high for the average consumer. goeasy has positioned itself as a lender of last resort for borrowers shunned by the mainstream banks and financial institutions.

Payday lenders and subprime mortgage brokers are common across the world, but goeasy seems to be one of the largest and most successful operations.

## Wealth compounding machine

Since 2001, the company has expanded sales at an annual rate of 12.7%. Net income, meanwhile, has been growing at an annually compounded rate of 29% over the same period. In its most recent annual report, the company claimed a return on equity of over 21.8%.

That's the reason why its stock has delivered such exceptional returns over the years. Despite its stellar performance, the stock trades at a relatively modest valuation. The price-to-equity ratio is a mere 13, while the stock trades at just over two times annual sales per share.

However, I wouldn't call the company undervalued. There are some legitimate reasons why the firm deserves a lower valuation than mainstream lenders and major banks.

## Buyer beware

goeasy's business model has two inherent flaws. Firstly, this industry's reputation makes it an easy target for politicians and the general public. Recent regulations have already clamped down on payday lenders, and several provinces have placed lower caps on the interest rate lenders can legally charge.

If the business gets too large or gains mainstream attention, more regulations and restrictions could follow.



However, a bad reputation isn't the biggest risk for goeasy. Instead, the next recession poses a much larger threat. Canadian households already have record-high debt levels. During an economic downturn, borrowers with the lowest incomes and worst credit ratings are usually the first ones to default on their loans.

The company has already experienced such a scenario. It lost nearly half of its net income between 2007 and 2009 as the global financial crisis raged on. Another recession could have a similar impact on goeasy's bottom line.

## Bottom line

Subprime lending may be controversial, but it's also unbelievably lucrative. goeasy's track record speaks for itself, but investors may want to consider its reputation and recession-related risks before diving in.

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