A Top Financial Stock for Your TFSA or RRSP

Description

There is an ongoing debate about which investments to hold in a Tax-Free Savings Account (TFSA) versus the Registered Retirement Savings Plan (RRSP). The reason that this debate exists is because no one has the perfect answer.

There are many factors to take into account; however, the most important is each investor's individual tax situation. Since there is no exact answer, most investments can be appropriately held in both the TFSA and RRSP.

In Canada, financials make up 32% of the S&P/TSX Composite Index. As such, registered accounts across the country are littered with financial stocks. Leading the way are Canada's big banks and some of the large insurance companies.

There are, however, some interesting off-the-board financial stocks that can yield greater returns. Case in point, **goeasy** (TSX:GSY). This alternative lender is a rising financial star and has been outperforming many of the blue chips.

Over the past five years, goeasy stock has averaged 36% annual returns. None of the TSX-listed blue-chip financial stocks can come close to this performance. This year has been one of the company's best, returning 60% year to date.

This strong performance also earned goeasy a place on the inaugural TSX 30. This list features the top-performing TSX stocks over a three-year period based on dividend-adjusted share price appreciation.

On Tuesday, the company's stock price dipped by approximately 3.5% presenting investors with a buying opportunity. The dip came as a result of mixed third-quarter results. Earnings of $1.28 per share missed by $0.13, and revenue of $156 million beat by $200,000.

Outside the miss on the bottom line, the underlying numbers remain strong. Earnings per share and revenue jumped 32% and 20%, respectively. The loan portfolio eclipsed $1 billion ($1.04) rising from $750 million previously. Net charge-offs were 13.2% slightly lower than the previous quarter (13.5%)

and within its targeted range of 11.5-13.5%.

Across the board, it was a record quarter for the company.

After several companies exited the space, goeasy remains a leading non-prime consumer lender. There is significant demand and little competition, which leads to a real competitive advantage for the company.

Earlier this month, the company enhanced its credit facility and lowered its interest rate. According to management, this will provide the company with sufficient liquidity to achieve its targeted growth rates through the first quarter of 2021.

Through 2021, the company expects revenue growth of 10-12%, return on equity to be at least 26%, and its gross loan portfolio to rise to $1.6 billion at the mid-range. Likewise, it expects the quality of its loan portfolio to improve, as it has a targeted net-charge off rate of 12% at the mid-range.

It is important to note that the company has never missed guidance since it started issuing targets at the outset of the decade.

In 2020, goeasy will officially a Canadian Dividend Aristocrat, as it extended its dividend-growth streak to five years this past March. This is an important milestone, as it will now garner the attention of dividend-growth investors and funds that track the Aristocrats. This will increase liquidity and the company's profile.

Since its streak began, goeasy has averaged 21.5% annual dividend growth. As the company posts record results, it is a rate that is on the rise. The aforementioned raise this past March was a whopping 38%! It has a low payout ratio (20% based on next year's earnings), and as such, investors can expect continued double-digit dividend growth.

Foolish takeaway

No matter if you are currently focused on topping up your TFSA or RRSP, goeasy is the perfect addition to either. It has one of the top expected earnings-growth rates (+30%), is becoming one of the best dividend-growth stocks, and is cheap.

It is trading at only 11.3 times forward earnings and an ultra-low P/E-to-growth ratio of 0.40. This means that the company's stock price is not keeping up with expected growth rates.

goeasy is a rare triple threat.

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1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. TSX:GSY (goeasy Ltd.)

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