The Top Financial Stock in Canada

Description

The TSX Index is heavily weighted toward financial stocks. As of writing, the financial services sector accounts for almost a third (32.1%) of the TSX Index. It is therefore not surprising that many Canadians have a good portion of their portfolios invested in the sector. In particular, Canada's Big Banks account for a large percentage of retirement funds and are among the most popular dividend stocks in North America.

For those interested in growth, however, the Big Five banks is not where investors should be placing their bets. There are several other more attractive, and lesser-known financial stocks that will provide investors with greater capital appreciation. Case in point – **goeasy** (TSX:GSY).

Last December, I anointed the alternative lender as one of the top financial stocks in the country and a top pick for 2019. Goeasy did not disappoint. Year to date, the company's stock price is up 95.78%, far outpacing the S&P/TSX Composite Index (18.36%) and the TSX Composite Banks Index (13.2%). It is one of the best performing stocks in the sector, second only to **Home Capital Group's** (TSX:HCG) 143% gain.

What made the company such a strong pick?

First off, goeasy was considerably undervalued. At the time, it was caught up in last fall's market sell-off and was trading 40% below its 52-week high. The drop was not warranted considering the company was not only meeting, but exceeding guidance. Since it started issuing guidance in 2011, it has never missed and has grown revenue in 18 straight years.

Although valuations have come up considerably, the stock still provides good value. It is trading at only 10.07 times forward earnings and has a price-to-earnings to growth (PEG) ratio of 0.43. A PEG under 1 signifies that a stock price is not keeping up with its expected growth rates. As such, it is considered undervalued. Analysts remain unanimous in their coverage of the company; goeasy is a "buy".

Goeasy is one of the few financial stocks that is poised to deliver strong, double-digit growth numbers. Analysts expect the company to grow sales and earnings by 14.80% and 31.90% in 2020. The Big

Five banks can only dream of growth rates that high.

If you looking for income, goeasy is also a strong dividend stock. In 2020, the company will become a Canadian Dividend Aristocrat. This year marks the fifth straight year in which it has raised dividends. The company last raised dividends by 37.7% this past March and has averaged 42% annual dividend growth over the course of the streak. This is the highest growth rate in the sector, and dwarfs the mid-to-high single-digit dividend growth offered by the big banks.

Foolish takeaway

This alternative lender has a proven management team that has consistently delivered exceptional results. It it still trading at cheap valuations and below industry averages on several metrics. It also happens to have one of the highest expected growth rates in the sector. Likewise, it is quickly becoming a dividend growth powerhouse and its addition to the Aristocrat list will increase the company's profile. Dividend growth investors will begin to take notice and funds that track the Index will be adding the stock to their portfolios.

Given this, investors have every reason to expect that goeasy will outperform again in 2020. No longer in the shadows, goeasy is getting the attention is justly deserves.

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