



Is goeasy (TSX:GSY) a Good Pick for 2020?

Description

Canada-based **goeasy** ([TSX:GSY](#)) has been a solid wealth creator for investors over the years. I had first recommended the stock [back in September 2019](#), and it has already gained 33% in a little over three months.

The stock is up 82% year to date and has returned an impressive 295% in the last five years. But after the recent momentum and with recession fears looming large, is it now time to exit the stock or hold it for the next year as well?

goeasy provides alternative financial services. It provides loans and related financial services to consumers, including leasing of household products. goeasy has two primary business segments: easyfinancial and easyhome.

In the easyhome segment, the company offers products, such as furniture, electronics, computers, and appliances under weekly or monthly leasing agreements. For this, goeasy has set up corporate-owned and franchise locations across the country. It also offers these services via its e-commerce platform.

In the easyfinancial business, goeasy generates revenue by lending to non-prime consumers by way of installment loans. It has around 200 easyfinancial locations and 180 easyhome stores in Canada.

goeasy's strong fundamentals

In the September quarter, goeasy reported revenue of \$156 million — a year-over-year growth of 20%. This growth was attributed to the expansion of its consumer loan portfolio. goeasy generated \$286 million in total loan originations, up 29% from the third quarter of 2018.

The increased originations mean the company's loan portfolio grew by \$75.9 million to \$1.04 billion, up 38% from \$750 million in the prior-year period. Strong revenue growth also helped the company improve profit margins. The operating margin was up 29%, while net income rose 38% year over year.

goeasy's president and CEO Jason Mullins stated, "We saw positive momentum from our new branded

media campaign, which drove a 25% increase in loan application volume and a second straight quarter of record new customers, resulting in a 20% increase in loan growth over the prior year.”

The company has managed to grow sales at an annual rate of 12.7% since 2001. Comparatively, earnings growth has been a solid 22.7% in this period. It has served over a million customers with loan originations amounting to \$3.6 billion.

goeasy has increased sales from \$348 million in 2016 to \$506 million in 2018. Analysts expect sales to touch \$776 million by 2021. For a company growing sales by double-digit percentages, it is still valued at 1.63 times market cap, which makes the stock attractive, despite the 80% rise in 2019.

goeasy will most likely double its earnings between 2018 and 2020. Compare these metrics to the stock’s forward price-to-earnings multiple of 13.3, and we can see that the stock is trading at a reasonable valuation.

goeasy also pays a dividend yield of 1.8%, and with a payout ratio of 24.3%, it has enough room to increase these payments.

goeasy is not recession-proof

Due to the nature of its business, goeasy is bound to perform poorly in a downturn. The number of consumers willing to take on a loan in a recession will reduce drastically. However, the default rate will rise higher.

During the last recession, goeasy stock fell from \$21 in October 2007 to \$5.5 in January 2012. Investors would be advised to park their funds in recession-proof industries such as retail, energy, and utilities.

goeasy should always remain on the investment radar of long-term investors. No one can predict a recession, and goeasy has been a solid pick in the last two decades. Investors can look to average out their losses and buy the stock at every major correction.

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