



Forget Royal Bank of Canada (TSX:RY): Buy This Stock Instead

Description

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) stock is looking like a compelling buy. Shares rarely go on sale, yet the market crash has pushed the stock price down by nearly 30%. The [dividend](#) yield has surpassed 5%.

But RBC isn't the best way to play the downturn. If you want to buy banking stocks with significant upside, you'll have to dig a bit deeper.

One TSX stock in particular looks *extremely* underpriced. However, most investors are ignoring this stock. That's because it has a market cap of only \$560 million. RBC, for comparison, is valued at \$123 billion.

If you want to go bargain shopping, ditch stocks like RBC in favour of more lucrative options like **goeasy** ([TSX:GSY](#)). Maybe you've never heard of this company, but your portfolio will thank you for doing some [research](#).

What you need to know

goeasy isn't a household name. As mentioned, it's less than 1% the size of RBC. But this stock is a proven winner. From 2012 through 2019, shares rose *15 times* in value. A \$5,000 investment became \$75,000.

The market crash has brought this stock back down to earth. Shares are now priced at \$37 apiece versus an all-time high of around \$80. What happened? Why is now the time to buy?

goeasy isn't a traditional bank. It's focused on lending and leasing to non-prime Canadian borrowers. It has over 400 locations across 10 provinces. The company has more than a million customers served, with an active borrower base of 230,000.

Lending to non-prime borrowers has meant big business. It was an underserved segment of the market that goeasy took by storm at the start of the century. Since 2001, revenues have increased by 13.1%

per year. EPS, meanwhile, grew by 23.8% annually. These growth rates are significantly higher than what you'd find at a conventional financial institution like RBC.

Here's the problem: lending to riskier borrowers can lead to trouble once a recession hits. goeasy stock has lost more than half of its value since the downturn began. This drop represents a growing concern that the company's customer base won't be able to repay its loans. This is a fair criticism, but the stock price decline has more than compensated for the risk.

A better bank stock

To understand how risky goeasy stock is, we must dig deeper into its loan book.

Nearly 10 million Canadians, roughly one-third of the population with credit reports, are considered sub-prime or near prime. Yet these people still need credit to finance homes, vehicles, and more.

In total, the non-prime lending market in Canada is worth \$230 billion. But it's important to note that much of this market is still serviced by traditional lenders like RBC. It's the smallest end of the market — loans of \$35,000 or less — that is largely ignored. This is where goeasy specializes.

Over the past five years, goeasy's loan book has experienced a 90-day delinquency rate of around 4%. That rate has hardly budged, despite fluctuations in inflation, employment, GDP, and household debt levels.

Of course, the coronavirus impact will upend those statistics, but in the coming months and years, it'll become *more* likely that non-prime Canadians will need to rely on small loan services. With the highest satisfaction rate in the industry, plus an impressive rate of repeat customers, goeasy stands to benefit long term, even if its delinquency rate rises throughout 2020.

This February, goeasy stock traded at 3.3 times book value. RBC stock traded at 2.4 times book value. The premium for goeasy stock accounted for its superior growth history.

Today, goeasy stock is valued at just 1.6 times book value. That's in line with what RBC stock trades at!

The financial sector as a whole is in for a difficult year, but now is your chance to buy goeasy stock *without* the usual premium valuation. For long-term investors, the choice is clear. Now trading at similar valuations, I'm picking goeasy over conventional banks like RBC.

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2. TSX:GSY (goeasy Ltd.)
3. TSX:RY (Royal Bank of Canada)

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