



2 TSX Financial Services Stocks With Strong Growth Potential

Description

Financial services stocks on TSX have taken a fair beating amid the COVID-19 outbreak. The record-low interest rate environment, too much uncertainty, higher provisions, and fear of defaults have taken a toll on them.

Despite the tough operating environment, a few financial services companies look strong and should do well in the coming years. **goeasy** ([TSX:GSY](#)) and **Equitable Group** ([TSX:EQB](#)) are two such financial services stocks that are trading low but have strong growth potential.

goeasy

Shares of goeasy have recovered sharply and have more than doubled in the last three months. However, it is still trading about 28% lower than its 52-week high of \$80.62 and is down about 17% year to date.

Weakened economic conditions and the uncertain outlook remain a drag. However, goeasy's fundamentals remain strong. It provides leasing and lending services to the non-prime borrowers and has performed exceptionally well in the past.

goeasy's top and bottom lines have grown at a compound annual growth rate of about 13% and 30%, respectively, since 2001. Its loan portfolio increased by 33%, while its revenues rose by about 20% in the most recent quarter. Investors should note that goeasy reported positive net income in the last 75 quarters. Moreover, its [same-store sales](#) have consistently grown over the past 40 quarters.

While loan originations could stay low in the near term, goeasy remains well positioned to benefit from the large and underserved market. goeasy has increased its dividends for the six years in a row and has been paying dividends for 16 years.

The company is focusing on expanding into newer markets and diversifying its product range that bodes well for growth. Besides, its forward dividend yield looks decent at 3.1%. Investors willing to hold the goeasy stock for the long term could benefit from strong [capital appreciation and steady dividend income](#).

Equitable Group

Equitable Group operates through its Equitable Bank, which is its fully owned subsidiary. Shares of this financial services company are down about 33% year to date. Moreover, it is down about 40% from its 52-week high of \$121.88.

The stock trades at the next 12-month price-to-book value ratio of 0.77, which is lower than the industry (consumer lending) average of 0.81.

Similar to other lenders, Equitable Group's recent quarterly performance took a hit from higher provisions. Weak economic outlook and expectations of future credit losses drove the provisions higher, which increased by 271% from the prior-year period.

In the near term, lower mortgage origination volumes could remain a drag. However, its provision for credit losses is likely to decline sequentially. Investors should note that its credit quality remains strong with almost all of its loans under management being secured by first-position charges. Meanwhile, about 52% of its loans are insured. Besides, its uninsured residential mortgage portfolio has a reasonable weighted average loan-to-value ratio of 64%.

The bank's capital ratios remain strong with the CET1 ratio of 13.5% as compared to the regulatory requirement of 7%. Meanwhile, its total capital ratio stood at 14.7%, which is also well above the regulatory requirements of 10.5%. Equitable is also a Dividend Aristocrat and offers a decent forward yield of 2%.

The recent pullback presents an excellent opportunity for investors to buy its stock for solid long-term gains.

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1. Bank Stocks
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TICKERS GLOBAL

1. TSX:EQB (EQB)
2. TSX:GSY (goeasy Ltd.)

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