This $770 Million Growth Stock Could Rise 40%

Description

goeasy Ltd (TSX:GSY) is the best growth stock you've never heard of. In 2012, its market cap was just above $100 million. Today, it's $770 million. That's nearly *eight times* your money in just eight years!

If you zoom out further, the results are even more impressive. Since 2000, shares have returned more than 7,700%.

But the ride isn't over year. When the COVID-19 crisis first began, shares tanked alongside the rest of the market. They corrected quickly, but remain well below their previous highs. This year, however, could be its best on record.

This stock suffers from a lack of awareness and a misunderstanding of its prospects in 2020, leaving 40% in upside for investors willing to act now.

This growth stock will rise

goeasy is in the lending business. But it's not similar to banks like **Royal Bank of Canada** or **Laurentian Bank of Canada**. goeasy is focused on a very niche segment of the market: non-prime, small-denomination loans.

Almost all of goeasy's lending activities involve loans of under $35,000. Almost all of its borrowing base is considered non-prime. These two characteristics reduce competition greatly. Bigger banks simply don't want to deal with smaller sums, or loan to riskier borrowers, even if the expected returns are commensurately bigger.

Just don't think this is a small market. Out of the 29.2 million Canadians with a credit report, 9.4 million are deemed non-prime.

Demand growth for smaller loans from these residents has exploded. Over the last two decades, goeasy's revenue has increased by 13.1% annually. Through stringent cost reductions, profits have risen by 30.1% annually over that time, proving that this management team can scale efficiently.

This is an impressive track record, but why will goeasy stock continue to rise? It’s all about the math.

goeasy’s target market, while niche, is still worth around $30 billion, giving the firm a 4% market share. To double in size, it only needs to increase its market share to 8%. As we’ll see, that’s more than possible given the current economic conditions.

Buy goeasy stock?

The COVID-19 crisis continues to impact market valuations. For goeasy stock, economic uncertainty could be a *driver* of sales and earnings growth.

“Non-prime consumers are in a cash crunch, meaning goeasy could see a surge of demand for its services,” I wrote in May. “This year, analysts expect the company to generate $650 million in revenue. That prices the stock at only one times sales. In 2021, revenue is expected to increase by more than 10%.”

Since that call, shares have risen by nearly 20%. But they’d still need to rise another 40% to reach their former highs.

It’s understandable to believe the company will experience an uptick in delinquency rates, but they would need to rise to historic levels to offset the profitability growth derived from new customers. Thus far, it doesn’t look like that’ll happen. That means goeasy will see a long-term rise in borrowing demand, without similar spikes in loan delinquencies.

Due to its small size, goeasy’s growth won’t be linear. But if you’re willing to remain patient through the volatility, shares could finish the year much higher.

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