Forget Royal Bank of Canada: Buy This Stock Instead

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) is a heavyweight stock. It has a $130 billion market cap with a 4.6% dividend yield. It's one of the most popular picks for both value and dividend investors. It's only missing one thing: growth.

To be sure, RBC isn't a stagnant business. Since 2006, shares have risen by 94%, nearly triple the return of the **S&P/TSX Composite Index**. But waiting 14 years to double your money isn't something to write home about.

If you want growth, you need to go smaller. It's simply the law of large numbers. A $1.3 billion business can double in size *significantly* easier than a $133 billion behemoth.

Fortunately, there's a bank stock even smaller than $1.3 billion. The stock below is valued at just $850 million, even though it's risen in value by more than 1,000% over the past two decades.

If you want to crush the performance of RBC, pay close attention.

This is impressive

goeasy (TSX:GSY) isn't a very popular company. Most people haven't heard of it. How, then, has it been so successful?

Banks like RBC focus on huge markets. They make multi-billion-dollar loans to global companies, operate research and investment banking divisions, and have millions of banking clients. goeasy is the opposite of this. From the start, the company focused on a very niche market: non-prime, low-denomination loans.

I broke the numbers down in a previous post. "There are 29.2 million Canadians with credit reports. Roughly one-third of this population have non-prime credit ratings. That's a credit score of under 720. In total, the non-prime consumer credit market in Canada is worth $230 billion."

But goeasy goes even smaller than this. It specializes in bank loans of under $35,000. That's only 14% of the non-prime market, implying a market size of just $30 billion.

No major bank would ever dedicate massive resources to this small of an opportunity. That's why goeasy has been able to garner a 4% market share. Looking at the numbers, it won't be difficult for the company to double in size again.

Should you buy this bank stock?

goeasy will never be as big as RBC. That's a fact. Its total addressable market is 70% smaller than RBC's market cap. But a small opportunity could still mean big upside given the stock is valued at just $850 million.

Year over year, goeasy has grown revenues by 15.7%. The average bank grew revenue by just 1.4%. EPS grew by 10.8%, versus an 8.7% *decline* for the industry.

If you want growth, ditch big bank stocks and stick with nimbler players like goeasy. The stock does trade at 2.5 times book value, a premium versus RBC's 1.7 times book valuation, but the price is worth it.

Of course, the COVID-19 crisis will be a short-term headwind for all bank stocks. Lending may slow, and delinquencies should rise. But for a quality company like goeasy, this could mean long-term opportunity, as weaker players exit the market, allowing the incumbents to take market share.

As long as you're willing to be patient and ride out the current crisis, goeasy stock should easily outperform RBC in the years to come.

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