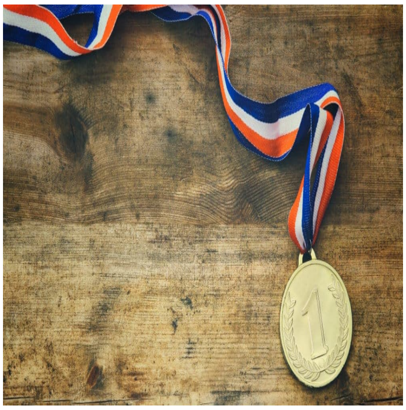

3 Reasons goeasy (TSX:GSY) Could Be a Top Performer in 2021

Description

Last year, when the health crisis erupted, **goeasy** (TSX:GSY) was one of the biggest losers. The stock lost roughly 70% of its value in less than a month. And for good reason. goeasy offers credit to subprime borrowers — the most vulnerable section of borrowers during any financial downturn.

However, this downturn has turned out very differently. The government stepped in to save households, and the vaccine was discovered sooner than anyone expected. That's helped goeasy surge 350% since March. And the momentum could be sustained in 2021.

Here are three reasons why goeasy should be on your radar this year.

Stimulus boom

The Canadian government stepped in to protect citizens like no other country did. Households who lost their job or contracted the virus were paid up to $2,000 a month in benefits for roughly four months. The government also boosted childcare payments, tax benefits for working from home and caregiver incentives.

Altogether, over eight million Canadians were protected from financial hardship. That could be one of the reasons why the delinquency rate dipped so low. With benefits rolling in and nowhere to spend the money, Canadians have more savings than ever before. Much of this has been spent on paying down debt.

The stimulus boom has saved goeasy. With borrowers paying back what they owe, the company's books are in great shape. And with its finances in order, it is heading into an economic recovery.

Economic recovery

The rollout of the vaccine has been frustratingly slow. However, given the country's tiny population and tight density, it's likely that the economy could fully reopen by the second half of 2021. This could unleash a wave of pent-up demand, which is excellent for credit providers such as goeasy.

goeasy is already operating at the back of solid fundamentals. A recovery in consumer demand should result in a spike in the company's financial services and products. Vaccine distribution and economic expansion should fuel growth in the goeasy loan portfolio.

The subprime lender has seen its bottom line increase at a strong double-digit rate over the past two decades. The momentum looks set to continue in 2021 at the back of improvements in loan origination rate, new products, and channel expansion.

goeasy's valuation

An uptick in economic activities should boost credit demand and, in return, drive revenues higher. Likewise, an increase in free cash flow should allow the company to continue making quarterly distributions, with the dividend yield currently standing at 1.9%.

A high-quality earnings base should allow goeasy to boost its shareholder's returns through higher dividend payments. Amid the stunning gains over the past year, the financial services company is still reasonably valued with a price-to-earnings ratio of 15.

Bottom line

goeasy was one of the hardest-hit stocks when the crisis erupted. Investors (including me) were worried about a sharp surge in bankruptcies and delinquencies. Instead, government stimulus programs helped millions of ordinary Canadians pay down debt.

Now, with record-high savings, Canadians face an economic rebound. By the second half of 2021, businesses could reopen across the country, employment could surge and pent-up demand could be unleashed. That makes goeasy a top stock pick for the year.

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vraisinghani