Here's My Top Canadian Stock to Buy in July 2021

Description

Many Canadian stocks doubled after the pandemic crash last year. The recovery was crisp and steep, primarily driven by reopening hopes. However, few stocks went way higher and created solid wealth for shareholders. Consumer lender **goeasy** (TSX:GSY) was one of them. The stock has risen five times from its March 2020 levels — way superior to the **TSX Composite Index's** 50% gain in the same period.

Why goeasy is a top Canadian stock to buy for long-term investors

Interestingly, goeasy still offers handsome growth prospects as we come out of the pandemic. It is one of my favourite TSX stocks. I had recommended it in late December 2020, and it has gained 75% since then.

The $2.7 billion goeasy provides consumer lending and leasing services through its two segments: easyfinancial and easyhome. The lending business brings in almost 75% of total revenues, while the rest comes from the leasing segment.

The non-prime borrower market that Big Six Canadian banks do not serve forms a large market for goeasy. The non-prime lending market in Canada is valued at $45 billion, and goeasy accounts for just a 3% share of it. This indicates huge growth potential for goeasy in this underserved, growing market.

Indeed, non-prime lending is a highly risky and volatile business. However, goeasy has done exceptionally well in the last two decades. Its revenue growth was close to 13% compounded annually since 2001 — higher than the industry average. In addition, its net income growth came in at 23% compounded annually in the same period.

Growth opportunities

The pandemic dented goeasy's business as well amid closures. However, it was quicker to recover, thanks to a relatively faster economic recovery and hefty stimulus spending. goeasy saw strong loan originations and improvement in repayment patterns since Q3 2020. The management expects a solid demand trend to continue as economies re-open.

goeasy has been on an aggressive growth path last year — organically as well as inorganically. It completed the acquisition of LendCare, a point-of-sale consumer finance company, for $320 million in April 2021. The acquisition will expand goeasy's product base and geographical footprint, which should bode well for its earnings growth.

Importantly, goeasy is planning to launch its auto loan product range this year. This will open up another $13 billion market for goeasy, which should see significant traction post-pandemic.

Dividends and valuation

goeasy has a stable dividend profile that yields 1.7% at the moment. It has paid dividends for 17 consecutive years and increased it for the last seven years. Notably, there is a large scope of dividend growth given its lower payout ratio and expected higher earnings growth.

Despite the steep rally, the stock is trading at a price-to-earnings multiple of 11 at the moment. That's highly discounted for a stock with such a sharp historical growth, stable dividend profile, and attractive outlook.

I think goeasy is well placed to cater to the high-growing consumer lending market in Canada. The acquisition of LendCare and entry into the auto loan market is coming at the right time and should create robust shareholder value for long-term investors.

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vinitkularni20