2 Ridiculously Profitable Growth Stocks Investors Are Sleeping On

Description

Equitable Group (TSX:EQB) and **goeasy** (TSX:GSY) are two wildly profitable companies that many investors may be sleeping on.

Certainly, alternative lending is not the sexiest business in the world following the disastrous events that unfolded in 2008. Since then, “subprime” has become a bit of a dirty word. Those who shied away from the alternative lenders since then have missed out on some pretty incredible gains.

Still, both companies, I believe, are far sounder than most expect, especially given the robust state of the broader economy and the potential “Roaring 20s” boom that’s on the horizon.

For the non-bank lenders, things have been working profoundly in their favour of late. And although each cash cow has been surging higher of late, I’d argue that their multiples still leave ample room to run. Not only are earnings compressing multiples, but each firm could be in for considerable multiple expansion as investors warm up to the alternative lenders and the unbelievable profitability numbers.

goeasy: A top profitable growth stock at a discount

What a run it’s been for goeasy, which finds itself up 90% year to date and over 161% over this past year. The momentum seems to be indicative of a stock that’s surged above and beyond its fundamentals. The stock has caused investors to double up many times over since the depths of 2020, after all.

With a modest 13.5 times trailing earnings multiple, however, I’d throw goeasy stock into the basket of winners that are more than likely to keep on winning. You see, unlike many other frothy high-tech (and high-spec) growth stocks, the alternative financial firm has actual earnings to back its rally up. In the latest quarter, top-line growth accelerated nearly 35%, well above the firm’s three-year average of 17.2% in revenue growth.

In a market that rewards growth, why is goeasy still trading at a value multiple? That’s the million-dollar question. As the company capitalizes on the Buy Now, Pay Later trend, with its easyhome subsidiary, I think the stock is capable of blasting off much higher as we approach the middle innings of this economic boom.

Simply put, the stock seems way too cheap given the incredible macro backdrop and the appetite for the financing of big-ticket consumer purchases. Whether we're talking about financing the purchase of next-gen tech or furnishings on millennials' new homes, it's clear that goeasy has profound tailwinds to its back. And at these levels, I don't think such tailwinds are fully reflected in the share price. Earnings have been great, but they could become even greater.

Equitable Group: Riding high, but still cheap

Equitable Group is another Canadian financial that doesn't get as much respect as it deserves. Similar to goeasy, it's at the intersection between growth and value. The stock trades at an absurd 9.5 times trailing earnings after nearly doubling over the past year on the back of some pretty stellar earnings results.

Analysts covering the top alternative lender are overwhelmingly bullish, with the Street high price target at $180, implying north of 16% worth of upside from current levels. I think Equitable Group could be in for the perfect combination of earnings growth and multiple expansion, which could propel the name past the $200 over the next 18 months. It's that cheap, and earnings are showing no signs of fading anytime soon.

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Date
2025/07/27
Date Created
2021/08/19
Author
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