Could goeasy (TSX:GSY) Be the Next Millionaire-Maker?

Description

Everyone seeks a millionaire-maker stock. If you notice, most billion-dollar stocks are those that cater to the average people or the masses. Companies seek to tap a new customer base and enhance the overall consumer experience. But what differentiates a billion-dollar company from others is a systematic approach and results-driven execution. Certainly, **goeasy** (TSX:GSY) has demonstrated both of these traits even in a crisis.

The business model

goeasy offers small loans in the range of $500-$45,000 to average Canadians that are tagged as non-prime and rejected credit by traditional banks. The average customer is 40 years old with an annual income of around $47,000 working across different industries. Their debt to after-tax income ratio is 115%, lower than the national average of 169%. The company offers leasing and lending services through an omnichannel platform (online, mobile, merchant point of sale, and physical offices).

goeasy offers loans to the above population and earns profit from the high-interest rate it charges customers. As customers repay their loans, it reuses the money to give more loans, thereby generating higher profits. Its major expense is acquiring new customers, designing unique products, and other office and administrative costs.

This business model, if used efficiently, holds immense potential to generate profits. The keyword here is *efficient*, and that depends on how the company profiles a customer and underwrites the credit. goeasy uses sophisticated analytical and modelling techniques to underwrite the non-prime population and develop products that reduce its credit risk.

Another major challenge is that customers move to other creditors as their credit scores improve. Hence, goeasy uses risk-adjusted loan rates to encourage consumers to stay and different credit scoring models to expand its customer base.

Results-driven execution

In 30 years of operations, goeasy has organically served over one million Canadians and originated over $6.7 billion in loans. Its distribution channel consists of over 400 locations and more than 4,000 merchants across Canada.

goeasy has two business segments:

- *easyfinancial offers* unsecured and real estate secured installment loans with interest rates starting at 19.99%.
- *easyhome* offers leasing services for household furniture, appliances, and electronics with a fixed annual interest rate of 29.99%. The interest rate is high because consumers can lease products without credit checks or down payments.

The strong execution has helped goeasy increase its revenue and adjusted EBITDA, which rose at a compound annual growth rate (CAGR) of 12.8% and 24.9%, respectively, between 2001 and 2020. Most of this growth came in the last three years, and goeasy even managed to pay incremental dividends for seven consecutive years.

A millionaire-maker?

The journey has not been easy for goeasy. Although the stock has been trading on the **Toronto Stock Exchange** since 1996, it didn't see continuous growth before 2013. This weakness is understandable given the 2009 financial crisis. But the stock has been in a long-term uptrend since 2013, growing 570% in seven years before the pandemic.

The company's stock achieved its seven-year growth in just 17 months since the March 2020 dip. The concern is whether the share has any more growth potential. The stock still has significant long-term upside as the economic recovery revives consumer spending and the company brings new products.

However, the stock is overbought after its robust second-quarter earnings this month. I expect a 7-8% correction as earnings bullishness cools and short-term traders exit the stock. It is a good buy below $170 and a hold for the long term.

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Date
2025/08/20
Date Created
2021/08/19
Author
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