This 1 Top Canadian Stock Surged 500% in 17 Months

Description

The toughest part about investing in stocks is picking the right stock and holding on to it. To make things easier for you, I have identified a small-cap Canadian stock with strong fundamentals and the potential to become a large-cap. But note that small-cap stocks come with risk, as they are not the market leaders but have a huge untapped market and significant room for growth. The risk is that you don't know how effectively and efficiently they can tap the growth.

A stock with growth potential

Here's a stock that has so far managed to grow efficiently and is now growing well. **goeasy** (TSX:GSY) stock has surged 500% since April 2020. This growth is equivalent to its five-year growth before the pandemic. What caused this rally, and is it sustainable?

goeasy provides lending and leasing services to non-prime Canadians rejected by traditional banks. The company's business is a high-risk business, but has managed to make it profitable by finding the gaps in the traditional form of underwriting.

goeasy uses sophisticated analytical and modelling techniques to disburse loans to the non-prime population. It comes up with creative products like risk-adjusted credit. During the pandemic, it came up with a loan insurance and borrowing assistance program (extend the loan term) that met the borrower's needs. These products helped goeasy increase its adjusted earnings per share (EPS) by 46.4% year-over-year (YoY) in 2020.

goeasy is benefitting from the recovery as consumer spending habits normalize. The spending reduced in 2020 as many people lost their jobs and mostly stayed home. The early signs of recovery were visible in the second-quarter loan originations that increased 122% YoY. It expects to see growth from the buy-now-pay-later option at the point-of-sale (POS) and has acquired LendCare for the same.

goeasy's growth strategy

goeasy’s strong execution has made it a good growth stock. The company is now moving to efficient growth and has devised a long-term strategy. The strategy depends on four pillars:

- Build new products and ancillary services like loan protection plans. It could expand into credit cards, other lines of credit, cash-secured credit, and starter loans in the future.
- Expand its distribution channel by adding more merchants, branches, third-party lenders, and POS terminals.
- Expand its retail footprint to a different location. At present, it only has a presence in Canada. But it aims to go international in the future. However, no outside Canada plans have surfaced so far.
- Improve customer experience by helping them improve their credit score and graduate to prime credit. And then cater to these prime customers with a new suite of products by partnering with prime lenders.

These are the areas where the company looks to grow its business revenue. But it is also creating new sources of low-cost capital generation to reduce cost. It created its first revolving securitization warehouse facility that has some of its consumer loans as collateral. It raised $200 million at a 3.5% interest rate.

The company plans to increase the securitization facility to $600 million, including a new three-year term extension, improved eligibility criteria, and lower interest payable. Access to low-cost capital will help goeasy increase its loan generation and at a favourable interest rate.

Is goeasy stock a buy at $182?

goeasy is prepared to tap all opportunities that it can harness effectively. But all its effort will only be fruitful if the economic environment is conducive and there are jobs. goeasy carries a risk of credit default that it balances with a 33% secured loan. But that doesn’t eliminate the risk of a mass-level default. The stock is currently overbought and trading at its peak.

I expect to see some correction in September as the government ends or reduces some stimulus packages. Buy the stock at a price below $170 and hold it for the long term.

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Date
2025/07/02
Date Created
2021/08/19
Author
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