Buy Alert: 1 Non-Bank Lender With a 117% Return

Description

Canada's banking system proved to the investing world once more that it's a bedrock of stability. The Big Six banks, led by **Royal Bank of Canada**, even had $40.5 billion in excess capital between them after Q2 fiscal 2021. Dividend investors are happy, because, besides the enormous profits, dividend hikes loom on the horizon.

Investors in **goeasy** (TSX:GSY) are more than satisfied with the 117.2% year-to-date gain. While all the big bank stocks continue to outperform, the non-bank lender has far more superior returns in 2021. Also, the current share price of $207.92 is more than 240% higher than a year ago. The return will be higher if you factor in the growth stock's 1.27% dividend.

Alternative financial company

Mississauga-based goeasy has been around since 1990. It has a market cap of $3.39 billion and provides non-prime leasing and lending services. Brands such as easyhome, easyfinancial, and LendCare are popular with Canadian borrowers. The alternative financial company offers a variety of financial products and services.

Most goeasy customers transact the modern way or through an omnichannel model (online and mobile platform). You can apply for personal loans, home equity loans, and auto loans, as well as lease-to-own merchandise. According to management, easyfinancial customers graduate to prime credit, while 60% increased their credit scores within a year of borrowing.

Major milestone

In June this year, goeasy completed a strategic acquisition that would accelerate the company's growth in the consumer credit market. CIVC Partners, a Chicago-based middle-market private equity firm, sold LendCare to the full-service goods and alternative financial services provider.

Lendcare is a point-of-sale, non-prime consumer finance and technology company in Canada. The

acquisition will immediately increase goeasy's earnings per share (EPS) by 10% in 2022 and 15% in 2023. Jason Mullins, goeasy's president and CEO, said the transaction was a significant milestone in the company's journey to becoming the leading provider of non-prime consumer credit in Canada.

Mullins said, "By widening our range of near-prime products and adding new industry verticals to our point-of-sale lending channel, we accelerate our growth and expand our addressable portion of the $200 billion non-prime consumer credit market. LendCare will expand goeasy's customer base to include borrowers in the auto, home improvement, health, retail, and power sports sectors."

Impressive financial results

The non-prime lending business of goeasy has thrived amid the global pandemic. In the first half of 2021 (six months ended June 30, 2021), revenue, operating income, and net income grew 17.2%, 22.2%, and 141.1% compared to the same period in 2020. The 4.9% total delinquency rate in Q2 2021 also reflects strong payment trends.

Notably, loan originations in the second quarter rose to a record $379 million — 121.9% higher than Q2 2020. With LendCare on board, 32.8% of goeasy's consumer loan portfolio is now secured. Other core strengths include a strong balance sheet and significant liquidity.

According to management, the approximately $870 million in liquidity is sufficient to fund goeasy's organic growth through Q4 2023. This year is the 17th consecutive year that this financial stock has paid dividends. Moreover, it's the seventh consecutive year the yield has increased.

2021 TSX30 member

Given the impressive business growth and fantastic financial results, market analysts recommend a strong buy rating for the non-bank lender. It's no wonder that goeasy ranks number seven on the 2021 TSX30 list.

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