TSX Stocks: Why This Small-Cap Beast Could Double Your Money

Description

Canada's fast-growing consumer lender stock **goeasy** (TSX:GSY) has been reeling under pressure since September last year. Since then, it has lost 28% of its market value, underperforming broader markets by a large margin. However, the stock looks attractive after the correction, as its earnings-growth outlook remains intact.

GSY stock for long-term investors

goeasy functions through two operating segments: easyfinancial and easyhome. The first is a consumer lender and a major growth driver for the company. It generates almost 80% of its revenues, while easyhome is responsible for the rest. easyhome is a lease-to-own furniture lending company that has seen relatively muted growth of late.

So, easyfinancial primarily caters to non-prime borrowers. It issues secured and unsecured loans, with the latter's annual interest rate going upwards of 40%!

Though the rate is far higher, it is significantly lower than the payday lenders. Payday lenders remain the only option for non-prime borrowers after being rejected at traditional financial institutions.

goeasy is still a small player in the big addressable market with approximately a 3% market share. The lending segment runs 286 stores, while easyhome runs 158 stores across the country.

It has been aggressively expanding its distribution channels, both online and offline, for the last few years. Its point-of-sale and auto loan segments should see increased traction considering full economic re-openings.

goeasy upgraded its underwriting software last year to better utilize the consumer banking data to serve overlooked populations like students and new Canadians.

Superior financial growth

Despite being in a risky industry, goeasy has showcased a handsome performance consistently. Its net income has grown by a massive 38% CAGR in the last decade. Its return on equity averaged around 20% in the same period.

That's why the stock has returned 2,600% in the last decade. Notably, the **TSX Composite Index** returned a mere 70% in this period.

GSY has been consistently paying a dividends for years and currently yields 1.5%.

goeasy gives three-year financial guidance and has a history of overachieving it. The management sees 15% CAGR revenue growth for the next three years with an operating margin above 35%. Interestingly, the company forecast its adjusted return on equity above 22% through 2023.

goeasy has started a new growth cycle after seeing the worst of the pandemic in 2020. I think it is very well placed to achieve consistent profitability due to its channel expansion and a recent foray into newer products.

Bottom line

GSY stock is currently trading at a price-to-earnings multiple of 10. Interestingly, its five-year historical average valuation comes around 14. So, the stock should see decent upward movement from here.

The company could see superior growth driven by strong demand for loans, solid execution, and in-house underwriting. In addition, its undervalued stock looks well placed to ride higher after a meaningful correction recently.

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Date
2025/07/30
Date Created
2022/02/15
Author
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