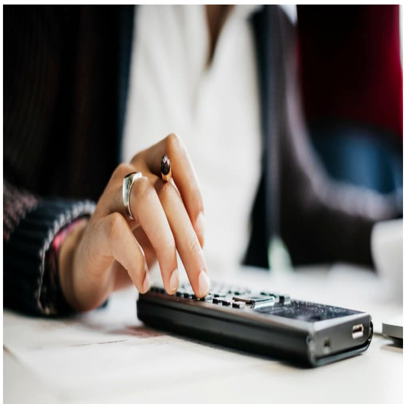

Down Over 35%: Should You Buy goeasy (TSX:GSY)?

Description

Goeasy (TSX:GSY) has delivered a robust performance over the last 20 years, with its revenue and adjusted earnings per share growing at a compound annual growth rate of 12.8% and 31%, respectively. Supported by these strong financials, the company has delivered impressive returns of over 13,500% during this period. However, this year, the company is under pressure amid the ongoing Russia-Ukraine war and the weakness in growth stocks due to the expectation of interest rate hikes.

It currently trades 36% lower than its September highs while losing 23% of its stock value since the beginning of this year alone. So, should investors buy the stock at these levels? First, let's look at the performance in its recently reported fourth-quarter and growth initiatives.

Goeasy's fourth-quarter performance

During the fourth quarter, goeasy generated a record loan origination of $507 million, representing year-over-year growth of 52% and sequential growth of 16%. Amid solid organic growth and acquisitions, the company's loan portfolio increased to $2.03 billion. The growth in its loan portfolio drove its top line by 44% to $196 million. Its operating income also increased by 30% to $79.6 million, with an operating margin of 34%. However, removing special items, its adjusted operating margin stood at 36.8% compared to 35.4% in the previous year's quarter. Meanwhile, its adjusted EPS grew 23% to $2.76.

The increase in the consumer loan portfolio, including $445 million in contributions from the acquisition of LendCare, boosted goeasy's asset base. It closed the quarter with assets of $2.60 billion, an increase of 73% compared to the previous year's quarter.

Goeasy's growth prospects

Currently, goeasy has acquired just around 1% of the $200 billion non-prime consumer credit market, which is highly fragmented. So, the company has a significant potential to grow. Besides, the economic expansion amid the easing of restrictions could boost loan originations, thus benefiting the company.

Meanwhile, goeasy is expanding its product range, developing new distribution channels, and strengthening its customer relationship to increase its market share. The acquisition of LendCare has also added new industry verticles, such as power sports, health care, and home improvement. Given its high-growth prospects, goeasy's management projects its loan portfolio to grow by over 75% to $3.6 billion by 2024.

The expansion in the loan portfolio could grow its top line at a CAGR of 15.7% while maintaining its operating margin above 35%. Supported by these strong financials, the company could deliver a return on equity of over 22%. So, its growth prospects look healthy.

Dividend and valuation

Goeasy has rewarded its shareholders by consistently raising its dividends for the last eight years. It recently raised its quarterly dividend by 38% to $0.91 per share, with its forward yield standing at a healthy 2.64%. Given its healthy growth prospects and stable cash flows, I expect its dividends to be safe.

Amid the recent pullback in its stock price, goeasy is trading at attractive forward price-to-earnings and forward price-to-sales multiples of 2.2 and 11.6, respectively.

Bottom line

Given the weakness in the broader equity market amid the ongoing Russia-Ukraine war, I expect goeasy to remain volatile in the near term. However, investors with a longer investment time frame can accumulate the stock for superior returns. Analysts are also bullish on the stock. Seven of the eight analysts covering the stock have issued a 'buy' rating, with a consensus price target representing an upside potential of close to 60%.

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