



Will This Beaten-Down Stock Bounce Back? 3 Things to Know

Description

The stock market is heading into a [downturn](#) as recession slowly creeps in. In this weak market, **goeasy** ([TSX:GSY](#)) is one beaten-down stock that lost 53% of its value and has returned to the early 2021 level. Non-prime lender goeasy took the hit, as the Justin Trudeau government started pulling back the fiscal stimulus package.

A beaten-down stock

I'd expected goeasy's stock price, which has been inflated by the stimulus money, to correct. But a 50% dip came as the central bank started increasing interest rates at an accelerated rate. Does the stock have a chance to bounce back when the economy revives? To answer this question, you need to look at three things:

- The possible impact of a recession on goeasy
- The balance sheet of goeasy
- Chances of a recovery

goeasy provides short-term leasing and lending services through its easy home, easyfinancial, and LendCare brands. Its loans range from \$500 to \$75,000, and interest rates range between 9.9% and 46.9%. Most Canadians take loans from goeasy, because they got rejected by traditional banks due to poor credit scores. goeasy helps such Canadians optimize their credit and enhance their credit score.

Impact of a recession on goeasy

During a recession, finances are tight, and borrowing is expensive. The global economy is heading into a recession, because the Russia-Ukraine war spiked oil prices when governments started pulling back stimulus money released during the pandemic.

During the pandemic, goeasy witnessed strong growth in profit, as its borrowers used stimulus money to repay their outstanding debt. When the pandemic eased, demand rebounded, and goeasy saw a

54% surge in loan origination in fiscal 2021. The growth in loan origination accelerated to 75% in the [first quarter](#) of fiscal 2022.

A recession could slow new loan origination, as consumer demand slows. A slowdown in consumer demand slows business activity and increases unemployment. Investors become cautious with lending when they are skeptical about income. And with interest rates as high as 46.9%, one might not want to plunge into that debt.

goeasy is in the business of managing credit risk, and a recession is a time when this risk is the highest. Many non-prime borrowers default on their loan payments, as they struggle to meet their expenses.

goeasy is at crossroads. It could either see a surge in small loans and regular repayments or a rise in defaults. The default risk depends on how severe the recession is. If the unemployment rate spikes, goeasy could see a surge in loan origination. That would call for creative credit solutions like secured loans with longer tenure and lower monthly payments, default insurance, and more.

A mild recession may only slow goeasy's revenue growth, but a severe recession could pull down its revenue.

The balance sheet of the beaten-down stock

goeasy has \$2 billion of consumer loan receivables and \$1.07 billion of notes payable. This is a healthy capital ratio. The company reinvests the loan repayments by giving more loans. If it stops reinvesting and run-off its loan portfolio, it could receive \$3.1 billion in cash repayments from the remaining life of its contracts. It could pay off its external debt with these repayments in 15 months.

While the balance sheet looks healthy in the current scenario, it could deteriorate if there is a mass-level default. At that time, about \$100 million cash reserve won't be sufficient to overcome the losses.

goeasy has a rich history of paying regular dividends for the last 18 years and growing it for the last eight years. Before the company's default risk rise, there would be warning signs like dividend cuts. That could hint at selling the stock.

Chances the beaten-down stock could bounce in a recovery

goeasy has a strong history of thriving during the worst of the crisis, because of the resilience the Canadian non-prime market has shown. It has experience in developing creative solutions and converting risks into opportunities. The company offers short-term loans with lower amount that gives it the power to mitigate its credit risk and recover.

The next two years could be challenging, and the stock could fall another 20-30%, but the chances of recovery are high.

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