Should You Buy goeasy (TSX:GSY) at These Levels?

Description

Amid strong recovery in the broader equity markets, the price of **goeasy** (TSX:GSY) stock has increased by around 30% compared to its June lows. Despite the surge, the company is still trading at a discount of 43.5% from its 52-week high. Is goeasy a buy at these levels? First, let's look at its track record.

goeasy's past performance

goeasy has been one of the strong performers over the last four years, with its revenue growing at a CAGR (compound annual growth rate) of 19.8%. The company's revenue growth has been driven by the expansion of its loan portfolio at a CAGR of 40%, organic growth, and strategic acquisitions. goeasy enjoys solid organic growth, with over 60% of loan originations coming from new customers.

Besides, the company is slowly shifting towards secured loans. In 2021, secured loans formed 32.8% of its portfolio compared to 1.4% in 2017, which is encouraging. Additionally, one in three of its customers are graduating to prime credit, while 60% of customers are improving their credit scores. Amid improving payment performances, its net charge-off rate, a ratio of loan losses to total loans, has declined from 13.6% in 2017 to 8.8% in 2021.

goeasy's growing revenue and improving operating performance have increased net income at a CAGR of over 50% from 2017 to 2021. Plus, the company's return-on-equity stood above 17% during this period. goeasy's uptrend has continued this year also.

Performance in 2022

In the first two quarters of this year, goeasy has increased its revenue by 30% to $484 million, with the company delivering record loan originations of $628 million during the second quarter. Thanks to these loan originations, the company's loan portfolio has expanded to $2.37 billion, representing year-over-year growth of 32%. Although its net charge-off rate increased from 8.2% to 9.3% during the second quarter, it was within the target range of 8.5-10.5%. Also, its allowance for future credit losses fell marginally from 7.78% in the previous year's quarter to 7.68%.

Further, the company's adjusted income and EPS (earnings per share) grew by 15% and 12%, respectively. Now, let's look at its growth prospects and management's guidance.

goeasy's growth prospects

With the boost in economic activities, loan originations could continue to rise. Meanwhile, goeasy is focused on expanding its product offerings, delivering a seamless customer experience, expanding its channels and points of distribution, and improving its penetration to drive growth.

After reporting a solid second-quarter performance, the company's management has raised its guidance. Management expects its loan portfolio to reach $4 billion by 2024, representing a growth of 68% from its current levels. Amid the loan portfolio expansion, the company's revenue could grow by 65% over three years. goeasy's operating margin could also increase by 100 basis points annually while delivering a return-on-equity of over 22%. So, I believe the company's outlook is promising.

Bottom line

Despite the strong recovery and excellent growth prospects, goeasy trades at a healthy NTM (next 12 months) price-to-earnings of 9.4, lower than its historical average. The company has rewarded its shareholders by paying dividends for the last 18 years, uninterrupted. Meanwhile, the company's dividend has grown at a CAGR of 34.5% over the last eight years. So, considering all these factors, I believe long-term investors would be wise to start accumulating shares of this stock despite current market volatility.

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