Why goeasy (TSX:GSY) Stock Fell 9.5% in September

Description

Amid recession fears and continued monetary tightening initiatives by the Federal Reserve of the United States, the **S&P/TSX Composite Index** fell 4.6% last month.

On September 21, the Federal Reserve hiked its benchmark interest rates by 75 basis points to 3–3.25%. Further, the chairman has warned that the central bank would continue with its interest rate hikes to bring inflation down. By next year, the Fed projects benchmark interest rates to reach 4.6%. Higher interest rates could increase borrowing costs while also lowering credit quality. That seems like bad news for **goeasy** (TSX:GSY), which provides leasing and lending services to subprime customers. GSY stock lost around 9.5% last month, thus underperforming the broader equity markets.

After last month's decline, the company has lost around 48% of its stock value compared to its 52-week high. So, would it be wise to start accumulating the stock? Let's first look at its track record and outlook.

goeasy's historical performance

goeasy has delivered solid performance over the previous five years, with its revenue and adjusted EPS (earnings per share) growing at a CAGR (compounded annual growth rate) of 20% and 28.6%, respectively. The expansion of its loan portfolio at an annualized rate of 40% drove its financials. The strengthening of its customer acquisition channels, including online, offline, and indirect channels, increased its loan originations, thus expanding its loan portfolio. The lender's credit performance has also improved. Its net charge-off rate, which measures the percentage of loans that are unlikely to return, declined from 13.6% in 2017 to 8.8% in 2021.

Despite this year's challenging environment, goeasy has maintained its growth, with its revenue and adjusted EPS growing at 30% and 12.1%, respectively. The financial services company generated record loan originations of $628 million during the second quarter, while continuing to deliver stable credit and payment performance.

However, goeasy's net charge-off rate rose from 8.2% in the previous year's quarter to 9.3% in the

June-ending quarter. But, it remained within the company's target range of 8.5%–10.5%. Meanwhile, its provisions for future credit losses declined by 10 basis points to 7.7%. Now, let's look at its outlook.

goeasy's growth prospects

During the second quarter, goeasy's impressive growth was driven mainly by automotive financing and home equity originations. However, high inflation and rising interest rates could slow down the growth in these two verticals in the coming quarters. Meanwhile, the company's management is confident of its growth prospects and has provided optimistic guidance, with its loan portfolio projected to grow by 63% to reach $4 billion in 2024.

Among steps to expand its loan portfolio in the coming years, the lender is expanding product offerings and adding new verticals. Additionally, it is improving its credit models and using advanced modeling and analytics. goeasy's management expects its operating margin to improve by 100 basis points annually through 2024. The company could also deliver an annual return on equity of over 22% during this period. The company's financial position also looks healthy, with its liquidity at $1 billion, sufficient to fund its organic growth until the second quarter of 2025. So, the company's growth looks solid.

Dividend history and valuation

Along with capital gains, goeasy has rewarded its investors through dividend growth. It has grown its dividends at an annualized rate of around 34% for the last eight years. Its yield currently stands at a healthy 3.38%.

Nonetheless, the recent correction has dragged its valuation down. It trades at 8.4 times its next four-quarter earnings, which is lower than its historical average. So, despite the challenging environment, investors should look to accumulate the stock to earn substantial returns over the next three years.

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Date
2025/08/17
Date Created
2022/10/04
Author
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