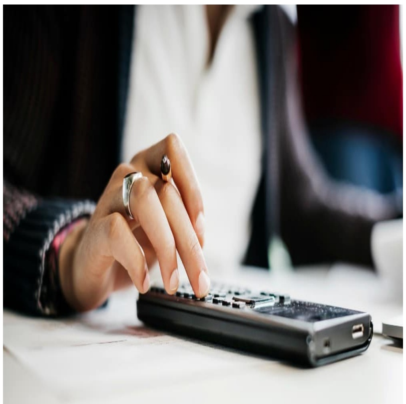

Down 40% This Year, Is goeasy Stock a Buy?

Description

Growth stocks have been weak this year thanks to interest rate hikes and ensuing volatile markets. Canada's top consumer lender, **goeasy** (TSX:GSY) has also been on an alarming decline and has lost 40% so far in 2022. Let's see if GSY stock offers healthy growth prospects or if there is more weakness brewing.

Should you buy GSY stock?

A $1.8 billion goeasy is Canada's leading consumer lender and primarily caters to non-prime borrowers. That is, it lends to borrowers with low credit scores whom traditional financial institutions deny. As a result, goeasy operates in a large addressable market.

Careful underwriting and omnichannel distribution have played well for its earnings growth all these years. In the last 10 years, goeasy has reported 33% net income growth compounded annually. Such steep earnings growth is quite noteworthy, especially for a risky sector like consumer lending. Its return on equity ratio has stayed above 15% since 2015.

Note that it was well reflected in its stock price performance. GSY stock has returned 2,100% in the last 10 years, beating the **TSX Composite Index** by a big margin. So, $10,000 invested in GSY stock a decade back would be around $220,277 today, including dividends.

goeasy business and its growth prospects

However, GSY stock has been weak this year. Rate hike pressures and recession fears have largely been behind its downfall. But notably, the company remains fundamentally sound. Its earnings growth and loan originations have stayed strong this year as well. So, when macro challenges ease, one can expect a steep stock price surge, probably returning to its previous record levels.

The company has issued upbeat guidance for the next three years. In fact, goeasy has almost always overachieved its guidance for the last several years. It expects a strong operating margin of over 35%

and a return on equity exceeding 22% annually through 2024. Those are certainly some impressive financial metrics. And achieving them will likely create notable shareholder value for long-term investors.

GSY stock: Valuation

Importantly, GSY stock is currently trading 10 times its earnings and 2.2 times its book value. Though it looks attractive from the price-to-earnings front, the stock seems relatively expensive from the book value perspective. However, it justifies the premium valuation given its above-average earnings growth and appealing growth prospects. So, the recent correction certainly seems like a decent opportunity for discerning investors.

GSY stock might not experience an immediate surge, considering the rate hike scenarios and potential economic downturn. However, it will likely be well positioned in a downturn, too, due to its diversified product base and proven underwriting business. It also pays a stable dividend yield of 3.3%.

GSY will report its third-quarter earnings on November 11. A better-than-expected set of numbers and positive management commentary could push the stock higher. Given the fundamentals and a recent correction, GSY looks like an attractive investment for the long term.

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