Is Now Actually the Perfect Time to Buy goeasy Stock?

Description

goeasy (TSX:GSY) stock has made its investors rich. Growing at a CAGR (compound annual growth rate) of over 32%, shares of this subprime lender have delivered a stellar gain of over 1,584% in the past decade.

This massive appreciation in goeasy stock is supported by its stellar growth. Its top line has increased at a CAGR of about 16% since 2011. Moreover, its adjusted net income grew at a CAGR of 33.6% between 2011 and 2021.

Besides price appreciation, goeasy is a solid dividend stock that consistently enhances its shareholders' returns through increased payments. However, higher interest rates and concerns over credit performance took a toll on goeasy stock in 2022. It has lost about 37% of its value year to date.

While the correction in goeasy stock eroded shareholders' wealth, it provides an opportunity to invest for the long term. Further, with easing inflation and an expected slowdown in interest rate hikes, goeasy will continue to deliver strong growth that could drive its stock price higher. Let's dig deeper.

Growth to sustain for goeasy

The decline in goeasy stock is unwarranted, as the momentum in its business sustained in 2022. In nine months, goeasy delivered record revenues of $746 million, representing an increase of 26% year over year. Furthermore, its adjusted net income marked a growth of 11% during the same period.

What stands out is the 27% growth in its total assets, driven by growth in its consumer loan portfolio. In the third quarter (Q3), goeasy's loan originations increased by 47%. Higher originations led to an increase in its loan portfolio. At the end of Q3, goeasy had a gross consumer loan receivable portfolio of $2.59 billion, up 37% year over year.

Despite concerns, goeasy witnessed stable credit and payment performance. The net charge-off rate in Q3 was 9.3%, which is within the target range of 8.5% and 10.5% on an annualized basis. Further, it was well below the pre-pandemic level of 13.2%. Also, goeasy's allowance for future credit losses decreased to 7.58% from 7.68% in Q2, reflecting improved product and credit mix.

While goeasy continues to deliver solid financials, an improvement in the economic environment will likely give a significant boost to its stock price. The company is poised to benefit from higher customer demand across all product and acquisition channels. Further, its stable credit performance is positive and will cushion its margins.

goeasy's management expects to deliver double-digit revenue growth through 2024. Its wide product range, new launches, and strategic acquisitions will bolster its growth. Moreover, leverage from higher sales and operating margin expansion will drive its bottom line and dividend payments.

Bottom line

goeasy's stellar growth, strong customer demand, channel and product expansion, and acquisitions will support its top- and bottom-line growth. Further, due to the recent pullback, goeasy stock is trading cheap. Its price-to-earnings ratio of 8.2 is lower than its pre-pandemic level of 10.9, making it attractive on the valuation front. Also, goeasy is a Dividend Aristocrat that has raised its dividend for eight consecutive years, implying investors can benefit from its growth and reliable dividend payments.

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