Is goeasy Stock a Buy Today While it’s Down 40% This Year?

Description

The rising interest rates and economic slowdown are weighing on the shares of **goeasy** (TSX:GSY), a provider of leasing and lending services to non-prime consumers. Investors were worried that the negative impact of the macro headwinds would hurt its loan originations and lead to a deterioration of its delinquency rate. Given the fear, goeasy stock has slumped about 40% this year.

While investors’ concern is warranted, the significant decline in its price seems unreasonable. Notwithstanding the macro challenges, the company has delivered stellar financial performance in 2022.

It’s worth highlighting that goeasy stock has compounded investors’ wealth in the past. GSY has grown at a CAGR (compound annual growth rate) of over 30% in the past decade. Moreover, it has enhanced its shareholders’ wealth through higher dividend payments during the same period.

Given the company’s solid returns history and strong fundamentals, the pullback in its stock price presents a buying opportunity for investors. Let’s look at the reasons why goeasy is a worthy investment well-positioned to outperform the benchmark index and create wealth.

goeasy’s stellar growth to support upside

It’s worth highlighting that goeasy has been growing its revenues and earnings at a solid pace for the past several years. Notedly, goeasy’s revenue grew at a CAGR of approximately 16% from 2011 to 2021. During the same period, its adjusted net income sported an annualized growth rate of about 33.6%.

goeasy maintained its high growth rate in 2022 despite the challenging macro environment. The lender generated revenue of $746 million in the first nine months of this year, implying a growth rate of 26% year over year.

Its stellar top-line growth reflects high loan originations and growth in its loan portfolio.

Notably, in the third quarter (Q3), goeasy's loan originations marked 47% growth. Moreover, its gross consumer loan receivable portfolio jumped 37% year over year to $2.6 billion. Overall, its total assets registered an increase of 27%, which is encouraging amid a challenging operating environment.

Furthermore, concerns about its credit performance haven't played out yet. goeasy's credit and payment performance remained stable. Moreover, the net charge-off rate was within the target range of 8.5% and 10.5% (on an annualized basis). Additionally, due to the improved product and credit mix, the company's allowance for future credit losses fell to 7.6% in Q3 from 7.7% in Q2.

Thanks to the leverage from higher sales and stable credit performance, goeasy's adjusted net income is up about 11% year over year.

Looking ahead, the lender's high loan originations, strength across all of its customer channels, and wide product range will likely support its top line. Also, its solid credit performance will cushion its bottom line.

Bottom line

goeasy's focus on channel and product expansion and acquisitions will drive its top- and bottom-line in the coming years. Besides capital appreciation, shareholders are also expected to benefit from its solid dividend payments. It is among the top dividend-paying companies having grown its dividend at a high double-digit rate in the last eight years. goeasy stock is trading at a price-to-earnings multiple of 7.9, even lower than pre-pandemic levels. Meanwhile, management projects double-digit revenue growth in the coming years. Overall, its attractive share price, high growth, and dividend payouts make it a solid long-term stock.

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