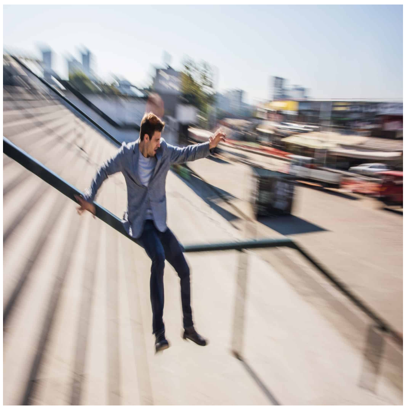

This Financial Stock Has Returned 20,000% in 2 Decades, and it's Still a Buy Today

Description

Investors generally turn to tech stocks when they seek growth. Canadian investors have had a few such tech names where their money got bigger at an extremely fast pace. But how about a financial stock that has been a multi-bagger for back-to-back decades?

This TSX financial stock has been on a roll for decades

Yes, Canadian consumer lender **goeasy** (TSX:GSY) has created massive wealth in the last two decades. It has returned over 20,000% in this period, representing a handsome 26% compounded annually.

The stock experienced significant drawdowns, be it during the 2008 financial crisis or during the pandemic, but has managed to emerge stronger. Its consistent outperformance and massive wealth created is indeed noteworthy for all kinds of investors.

goeasy serves a large addressable market and lends to non-prime borrowers that traditional financial institutions do not cater to. Since 2009, large banks have significantly moved away from risky lending amid stringent regulatory requirements. This has substantially helped existing players like goeasy with market share expansion and accelerated earnings growth. Its omnichannel distribution facilitates expansive reach, and strong underwriting skills bode well for its business growth.

goeasy operates with two verticals: easyhome, a furniture lease-to-own company, and easyfinancial, a consumer lending company. It lends for nine to 84 months from $500 to $75,000 at starting interest rates of 9.9%.

The company has been increasing its exposure to secured lending for the last few years. Till Q3 2022, 37.6% of the total consumer loan portfolio was secured compared to 33.2% in Q3 2021. While this has lowered the total yield, the quality of the loan portfolio on a company level has substantially improved.

Consistent financial growth and healthy margin profile

In the last two decades, goeasy's revenues and earnings per share grew by 14% and 21%, respectively, compounded annually. That's indeed a staggering growth for a risky industry like consumer lending. Apart from financial growth, its margins have also been healthy and consistent over the years. Its long-term average return on equity comes to around 16%. This suggests how consistently and efficiently the company has used equity financing to generate profits.

GSY stock has lost 40% in the last 12 months and looks attractive at current levels. Notably, it is trading twice its book value and looks undervalued against its historical average. The stock might not see a significant recovery soon amid the broad market challenges. However, GSY stock could soar higher in the long term, driven by the supporting macro scene and strong business growth.

GSY has almost always overachieved its guidance. For 2024, the management expects nearly $4 billion of gross consumer loan receivables. It has guided for $1.34 billion in annual revenues, representing a handsome 22% growth compounded annually. Moreover, goeasy sees operating margins of over 37% and a return on equity exceeding 22% in the long term.

GSY plans to pursue its long-term growth strategy by expanding its product range, developing its distribution, and reducing its cost of borrowing. In the recent past, the company has expanded into auto loans and has acquired point-of-sale financing provider Lendcare.

Conclusion

Its imprudent to expect a similar performance from GSY in the future. However, considering its established position in a large market and solid earnings growth prospects, GSY stock will likely continue to outperform in the long term.

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