This Stock Has What it Takes to Turn $1,000 Into $10,000

Description

goeasy (TSX:GSY) stock has jumped over 1,000% in the last 10 years, and this is after factoring in the 49% dip in the 2022 downturn. 100-fold growth might look attractive, but when you break it down, it comes to a 27.7% compound annual growth rate (CAGR). If it is true that past performance does not reflect future returns, then what does the 10-year CAGR infer? Is there a way to make an educated guess on whether goeasy could repeat history and convert $1,000 into $10,000?

Can goeasy stock repeat its 10-year history of steady growth?

One way to study the probability of 10-year growth is to identify the company's growth strategy and compare its past implementation with its future focus. goeasy is a non-prime leasing and lending company that offers secured and unsecured short-duration loans between $500 and $50,000. Consumers use these loans for home renovation, buying cars, shopping, or power sports. Its four-point growth strategy is to

- Develop a wide range of credit products like auto financing and credit insurance;
- Expand distribution channels like omnichannel platforms and merchant point of sale;
- Diversify its geographic footprint; and
- Improve customers' financial wellness by improving their credit scores.

More product offerings and a wider distribution channel enhance loan origination and bring more revenue from processing fees. A higher credit score helps goeasy reduce credit risk and the overall yield from its loan portfolio. If things continue in a similar way, the stock could continue its long-term rally and probably grow at a 20-25% CAGR.

The macroeconomic bump in the stock's growth

So far, goeasy has implemented its four strategic pillars, helping a third of its personal loan customers graduate to prime credit. It also improved the credit score of 60% of its customers within 12 months.

But the past performance is from January 1, 2013, to January 1, 2023, when the overall economy was in the growth phase with lower interest rates. The macroeconomic situation changed in 2022, as inflation reached its 40-year high. The central bank accelerated interest rate hikes to reduce consumers' purchasing power and control inflation. Tighter prime credit increased loan origination in the non-prime market. goeasy's loan origination increased 47% in the third quarter, but the stock fell 48% over fears of growing delinquencies.

Two out of three risks – volatility to the global stock markets, changing interest rate environments, and increased delinquencies and defaults — materialized in 2022. If the third risk of increased defaults materializes in 2023, goeasy stock could see two or three years of downside until the economy revives.

What do goeasy fundamentals have to say?

Working with non-prime customers and handling credit risk is goeasy's business. It monitors this risk using metrics like net charge-off rate (the percentage of loans receivable likely to default) and provision rate (the percentage of loans set aside for defaults). In the third quarter, goeasy's net charge-off rate increased to 9.3% from 8.3% a year ago. But this rate is still within the manageable range of 8.5-10.5% net charge-off rate, as goeasy has provided for that much default.

So far, goeasy has not raised warning bells that could significantly affect its revenue and earnings. In fact, the company recorded the highest percentage of low-risk loan originations. A 48% dip looks like an overreaction for a stock with strong fundamentals.

Is the non-prime lending market lucrative?

Investors are bearish, as memories of the 2007 Financial Crisis make them fearful of sub-prime lenders. But the personal lending market has evolved. Industry players adopted technology (chatbots) and better credit score models to evaluate sub-prime consumers and educate them on better credit habits. Instead of forcing a consumer to repay loans, they worked with a consumer to arrive at a solution to help them repay loans and graduate to prime credit by strengthening their credit score.

These advancements helped goeasy stock convert the $1,000 invested in 2013 to $11,500 in 2023 and grow the dividend at a CAGR of 26.75%.

Is goeasy stock a buy?

goeasy stock will likely fall throughout the year. A $500 monthly investment can help you get a cost advantage on the stock. Buying the dip could help you accelerate growth through 2030.

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