Is goeasy the Best Growth Stock to Buy in February 2023?

Description

As the rate hike outlook has mellowed a bit this year, growth stocks seem to have taken great shape. Canadian consumer lender **goeasy** (TSX:GSY) has gained 20% so far and looks well placed to outperform this year. GSY stock has lost 15% of its market value in the last 12 months but has returned over 250% in the last five years.

A $2 billion goeasy operates through three segments: easyfinancial, easyhome, and Lendcare. While the furniture lending business, easyhome, has been its oldest business, the lending platform, easyfinancial, has been the key growth engine for the company.

What's so special about goeasy?

goeasy primarily caters to non-prime borrowers. It lends for nine to 84 months from $500 to $75,000 at starting interest rates of 9.9%.

In the last decade, traditional financing institutions moved away from riskier lending due to regulatory requirements. This has substantially expanded the unsecured lending market for companies like goeasy.

Apart from secular tailwinds, goeasy has shown strong execution over the years that has created massive value for shareholders. Be it geographical expansion or inorganic growth, GSY has seen a strong contribution in value all along. Its prudent underwriting practices have played well managing credit risks, leading to stable growth.

Its revenues have grown by 16%, compounded annually since 2011. In the same period, net income has grown by 38% compounded annually. Its average return on equity ratio has come to around 21% in the last decade.

Higher financial growth effectively seeped into its market performance over the years. GSY stock has returned 13,500% between 2001 and 2021. Very few Canadian stocks have created such massive wealth for such a long time.

Financial growth and outlook

Those are some outstanding numbers for a company in a risky sector like consumer lending. Notably, the management has guided for steep growth continuing at least through 2024.

The company aims to expand its product range along with the development of new distribution channels. Driven by omnichannel distribution and increased cross-selling opportunities, goeasy will likely see superior revenue growth and margin expansion.

GSY has notably expanded its exposure to secured loans since 2016. Although this has made its total yield drop, it has also made the overall lending portfolio less risky.

goeasy: How has it played of late?

The company has seen a consistent rise in loan originations in the last few quarters. Its gross consumer loan receivable portfolio increased to $2.6 billion for the nine months that ended on September 30, 2022. That was a strong 37% increase year over year. The repayment patterns are also expected to remain strong with sound employment trends.

GSY stock might keep its momentum going in 2023 with its stable earnings growth and established business model. The stock offers handsome growth potential, given its huge discount to 2021 highs.

On the valuation front, GSY stock is trading at 2.5 times its book value and looks fairly valued compared to its historical average. Considering its superior growth prospects, GSY stock deserves a premium.

So, we can see valuation re-rating probably in the latter half of 2023 when the macro picture improves and broader markets stabilize.

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Author
vinitkularni20