Here’s the Next TSX Stock I’m Going to Buy

Description

High inflation and the aggressive interest rate hikes to bring it down have weighed on Canadian stocks. However, thanks to this correction, investors can now invest in high-quality stocks at prices well below their highs. But before you put your hard-earned money in equity, note that a weak economic environment could continue to pose challenges in the short term. Thus, investors with a long-term view should take advantage of this pullback and gain from the recovery in prices.

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With some stocks trading at a discount, it’s critical to pay special attention to the fundamentals of a company. Most importantly, I’d focus on companies with multiple catalysts and strong earnings growth potential. A company with a strong and growing earnings base is more likely to outperform the broader markets in the long term and generate stellar returns.

Speaking of such fundamentally strong corporations with a growing earnings base, **goeasy** (TSX:GSY) comes to my mind. goeasy has a market cap of about $2.13 billion, while the company is Canada’s top sub-prime consumer lender, offering products like unsecured and secured loans. Moreover, it also provides point-of-sale financing.

Impressively, this non-prime lender has generated a significant amount of wealth for its investors and outperformed the benchmark index. For instance, goeasy stock has gained over 1,443% in the past decade, reflecting a CAGR (compound annual growth rate) of 31.4%.

In addition, goeasy enhanced its shareholders’ returns through dividend payment and growth. It has paid a dividend for 19 years. Moreover, it has increased it in the past nine consecutive years.

Why is goeasy a dependable, long-term stock?

goeasy has consistently increased its dividend at a solid double-digit rate in the past decade. What stands out is the momentum in its business sustained in 2022, despite macro headwinds. Its revenues increased by 23%, reflecting higher loan originations and growth in the consumer loan portfolio. Further, the company's originations were of high quality, which boosts confidence in its future credit performance.

It's worth highlighting that goeasy's credit quality remains strong with lower net charge-offs and loan loss provision rates. Further, improved operating leverage supports its bottom line.

Looking ahead, goeasy expects its consumer loan portfolio to reach $5 billion by 2025 from $2.79 billion at the end of 2022. The company expects its top line to grow at a double-digit rate through 2025. Further, it projects a 100-basis-point improvement in the operating margin annually over the next three years.

The company's focus on expanding its product range, developing its distribution channels, and reducing the cost of borrowing for its consumers augur well for future growth. Furthermore, its increasing proportion of secured loan portfolio is encouraging.

Bottom line

Overall, the strong demand, resilient business model, and margin expansion suggest that goeasy is poised to deliver stellar growth in the coming years, which will support the uptrend in its stock. While goeasy's fundamentals remain strong, its valuation looks compelling. goeasy is trading at a forward price-to-earnings multiple of 9.5, which is lower than the pre-COVID levels.

Besides solid gains, investors will likely benefit from goeasy's solid dividend payouts. goeasy offers a dividend yield of 2.9% based on the closing price of 133.34 on February 16.

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