goeasy Just Raised its Dividend: Should You Buy?

Description

goeasy ([TSX:GSY](TSX:GSY)) stock has been a big winner long term. Last week, the leading Canadian non-prime consumer lender reported its fourth-quarter (Q4) and full-year 2022 results and raised its dividend. The stock market initially responded by driving the stock a few percentages higher. Let's take a closer look to see if it's a buy today.

goeasy's recent results

goeasy has been profitable for 21 consecutive years, has paid dividends for 19 consecutive years, and increased its dividend for nine consecutive years, earning its Canadian Dividend Aristocrat status. In fact, it just increased its dividend by 5.5% last week.

The company reported that during Q4, it increased its loan origination by 25% to $632 million year over year, driven by an increase in lending across its products and acquisition channels, including unsecured lending, home equity loans, point-of-sale lending, and automotive financing. Consequently, the loan portfolio growth was $206 million — 54% higher year over year.

At the end of the quarter, goeasy's gross consumer loan receivable portfolio was $2.79 billion, which was 38% higher versus Q4 2021. The consumer loan growth led to record revenue of $273 million that was 17% higher year over year.

In a higher interest rate and higher inflationary environment, investors must have been relieved to see the company continued to experience stable credit and payment performance. Specifically, the net charge off rate for Q4 was 9%, which sat comfortably in the company's target range of 8.5% to 10.5%.

The press release stated, "The stable credit performance reflects the improved credit quality and product mix of the loan portfolio and the proactive credit and underwriting enhancements made throughout 2021 and 2022."

A pundit mentioned on *BNN* that in today's higher interest rate environment, some higher credit quality customers no longer fit the requirements for traditional lending and so have turned to goeasy's products and services. In a sense, this has helped improve the overall quality of goeasy's consumer loan portfolio.

For 2022, goeasy's revenue rose 23% to $1 billion, while operating income climbed 18% to $332 million. Adjusted earnings per share (EPS) rose 11% to $11.55. The adjusted return on equity was 24.2%.

Should you buy the growth stock?

Non-adjusted, goeasy reported 2022 EPS that was 42% lower at $8.42. The adjusted EPS mentioned earlier was adjusted for non-recurring items, related to the write-off of intangible assets, acquisition of LendCare, corporate development costs and the fair value mark-to-market change in investments.

There was increased money supply in the economy around the pandemic, which helped drive the rally in the stock from the pandemic market crash bottom in March 2020 to the peak in September 2021. The capital tightening from rising interest rates was a reversion, triggering a selloff in the growth stock.

As the company showed, it reported stable business performance on an adjusted basis. The stock appears to be fairly valued in today's environment. However, if it's able to realize above-average growth longer term, as it has in the last decade, the stock is considered to be undervalued on a forward basis. In fact, the analyst consensus 12-month price target of about $197 suggests 50% near-term upside potential from the recent quotation of under $131 per share.

In the long run, goeasy stock has outperformed. The growth stock's 10-year total returns are about 32.8% per year, greatly outperforming the Canadian stock market return of 8.9% annually. A percentage of the Canadian consumers will always need its products and services. Capital tightening has made it a riskier operating environment for the company.

However, it has also ushered higher credit quality consumers to the business, which should ultimately help goeasy's bottom line. Therefore, goeasy stock is a good consideration as a part of a diversified portfolio for higher-risk investors. It also offers a dividend yield of about 2.9% for starters.

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