2 High-Growth Stocks on Sale

Description

Market volatility has hit more than just the energy industry. In particular, many high-growth stocks have seen their share prices tumble–not on lower earnings, but on lower valuation multiples. With investors expecting a tough economy ahead, expectations for yesterday's high-growth companies have been tempered quite a bit. Among the ashes, however, are two companies than can continue growing, despite market fears.

Automation is a long-term play

With rising wages and a focus on cost efficiencies, the automation industry has seen huge growth over the last 10 years. **ATS Automation Tooling Systems Inc.** (TSX:ATA) has been a major beneficiary of this long-term trend.

The company provides global factory automation solutions, including the planning, designing, and building of automated factories. In the past five years alone earnings have grown by an average of 30.4% a year. From the start of 2011 to its highs last year, ATS stock grew over 120%. However, recent market turmoil has sent shares reeling down to levels not seen since 2012.

While growth has slowed a bit, the recent price correction looks overdone. Full-year profits are expected to be $.80 a share, meaning the stock only trades at 11.3 times earnings. That's a far cry from the company's five-year average valuation of 52.8 times earnings. Next year earnings are expected to grow yet again to $0.93. With secular industry tailwinds and a rock-bottom valuation, ATS stock looks to have the rare combination of high growth and value.

Tech at a discount

Constellation Software Inc. (TSX:CSU) has had one of the most impressive runs of any TSX stock over the last five years.

Since 2011 shares are up over 860%, with earnings growing at 29.3% annually. This January,however, was a rare down month for the company, with shares dropping around 17%. Shares nowtrade at only 28.7 times 2015 earnings.

While this doesn't appear extraordinarily cheap, consider the company's five-year average valuation of 38.8 times profits. For 2016 analysts are expecting profits to grow yet again to $19.72 a share, implying a forward valuation of just 24.2 times earnings. That's actually quite cheap for such a consistent, high-pace grower.

Constellation's core business isn't going away any time soon. It acquires, manages and builds vertical market software businesses. This software is incredibly niche-focused, providing mission critical software solutions that address the specific needs of customers in particular markets. Its software is almost always high-margin with impressive renewal rates.

Operating an asset-light business also allows for ample free cash flow generation. Since 2010 operating cash flow has more than tripled to $379 million a year. Capital expenditures over the last 12 months amounted to only $12 million, resulting in free cash flow of $367 million. If you're looking for a rare opportunity to buy into a proven grower, Constellation Software is for you.

CATEGORY

1. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:ATS (Ats)
2. TSX:CSU (Constellation Software Inc.)

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