Growth Stocks for Price Gains

Description

Linamar Corporation (TSX:LNR) and **Gildan Activewear Inc.** (TSX:GIL)(NYSE:GIL) have had meaningful price dips lately. At under $54, Linamar is about 38% below its 52-week high. At about $33, Gildan is 25% below its 52-week high. They are priced at cheap valuations compared to their growth potential.

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Although both companies pay dividends, investors should expect most returns from these growth stocks to come from price appreciation because they pay dividends of 1% or less. Both companies are estimated to grow earnings per share by at least 10% in the near future. If that materializes, their comparative low valuations make them attractive investments.

Linamar Corporation

Linamar has been in business since 1966, and it is now one of the top automotive suppliers in the world. It takes the 33rd place in North America and the 65th place in the world. Linamar has operations in North America, Europe, and Asia, and it plans to expand into China, Brazil, and India. So, the company has lots of room to grow.

Linamar has 48 manufacturing facilities, five research and development centres, and 15 sales offices. In 2014 it achieved sales of $4.2 billion, while its market cap is only $3.55 billion.

Its multiple is only 8.3, while its EPS could grow at a rate of 12% or higher in the foreseeable future. In fact, from 2011 to 2014, its EPS grew by 44% on average per year. In the same period its revenue increased by 13.4% on average per year.

Most recently, in the nine months that ended in September, Linamar's sales grew 23.7% compared with the same period in 2014. Its net EPS also increased by 36.5%.

Other than growing its revenue and earnings, Linamar's operating margin has also expanded from 5.5% in 2011 to the trailing 12-month's 11.5%. All of these metrics indicate the company is becoming more profitable and perhaps has competitive advantages against its peers.

Gildan Activewear

Gildan is a manufacturer and supplier of basic apparel. Its products include T-shirts, fleece, socks, and underwear. Its umbrella of brands includes Gildan, Anvil, Kushyfoot, Comfort Colors, Gold Toe, Silks, Secret, and Therapy Plus. Additionally, it distributes licensed brands, such as New Balance, Under Armour, and Mossy Oak.

Gildan distributes its products in printwear markets in North America, Europe, Asia-Pacific, and Latin America.

It’s priced at 13.6 times its estimated 2016 EPS, while its EPS could grow at a rate of 10% or higher in the foreseeable future. From 2011 to 2015, its EPS increased by 18.2% on average per year. In the same period its revenue increased by 8.7% on average per year.

Most recently, in November Gildan was less optimistic about its sales growth. It anticipated sales growth in printwear to be close to 10% compared with its previous projection that was in excess of 10%, while branded apparel sales growth is forecasted to be about 12% compared with the previous projection of about 15%.

Conclusion

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Linamar is cheap for a company growing at a double-digit rate. On the other hand, Gildan is not expensive either. Further, they pay yields of 0.8% and 1%, respectively. Investors looking for dividend stocks with above-average growth potential should consider these companies.

Based on their normal historical trading multiples, Linamar could trade at the $80 level for a 48% gain, and Gildan could trade at the mid-$40 level for a 36% gain.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:GIL (Gildan Activewear Inc.)
2. TSX:GIL (Gildan Activewear Inc.)
3. TSX:LNR (Linamar Corporation)

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