

Why These 3 Canadian Small-Cap Names Are up 150% This Year (and Poised to Continue)

Description

While many investors focus exclusively on large-cap names (stocks with market capitalization over \$5 billion) due to their relatively low-risk nature, it is essential not to overlook the role small-cap stocks (market capitalization under \$2 billion) play in a diversified portfolio.

Why? Historically, small-cap stocks outperform large-cap stocks. A recent *Financial Post* article examined the 10-year returns of small-cap stocks versus the TSX and found that over the 10-year period ended in early 2015, small caps outperformed the TSX by 26%. This year, the TSX Venture Exchange of small-cap names is significantly outperforming the TSX and the S&P 500.

Warren Buffett famously touted the benefits of holding small caps by stating that “the elephants are not as attractive as the mosquitoes.” Adding small-cap stocks can be an excellent way to boost returns. The key is to keep allocation small (less than 30%) and pick quality names.

Baytex Energy Corp.

With a market cap of \$1.5 billion, oil and natural gas producer **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) has returned nearly 70% this year, driven by the higher price of oil. There is good reason to believe, however, that the rally in Baytex still has legs.

Firstly, the rally in oil prices is almost certainly not over (although it may pull back or pause for a period as recent temporary supply outages come back online). With demand expected to grow by more than one million barrels per day annually through to 2020, significant supply will be required both to meet demand and offset natural production declines. Analyst Art Berman estimates that \$70-80 per barrel is the breakeven range for most global producers, and these are the prices required to encourage investment.

At US\$50/bbl, Baytex's three core assets all earn solid double-digit internal rates of return (around 50% for Baytex's Lloydminster and Eagle Ford assets), and with short payback periods of under two years, Baytex can plough cash flow back into production growth, which gives Baytex excellent leverage to rising prices.

D-Box Technologies Inc.

D-Box Technologies Inc. ([TSX:DBO](#)) is a small-cap name whose shares have doubled this year. The company operates in a few key markets. It sells motion technologies to both theatres and amusement parks (which includes movie seats that move and vibrate in sync with the movie) as well as simulation technologies for flight, defense, driving, and medical applications.

D-Box technologies are becoming incredibly popular among movie theatres, which can expand margins by charging premium prices for movies that include D-Box technology. **Cineplex** ([TSX:CGX](#))

is a key customer; D-Box technology is currently available in 440 theatre screens worldwide.

Going forward, D-Box has 120 screens yet to be installed, and the company has a track record of successfully growing its backlog and total installed screens. As a result, the company's revenues have been in a steady up-trend since 2011 when it had only seven million in revenue. In 2015 this number was 20 million.

D-Box will use its strong customer relationships to continue to drive growth in this growing market.

Lithium X

Lithium X Energy Corp. (TSX:LIX) is, without a doubt, the riskiest name on this list, but it also has the highest return potential. Lithium has been called "the new gasoline" by **Goldman Sachs** due to its essential role in batteries for electric cars as well as to store energy produced by renewable technologies like solar panels and wind mills.

These markets are expected to grow by 30% annually through 2025, and lithium prices have been soaring recently. Lithium X is an exploration and production company looking to meet this demand, and the company currently has assets in Argentina and Nevada. Argentina has the highest-quality lithium deposits in the world, and Nevada is close to **Tesla Motor's** new Giga-factory.

Lithium X is also operated by a team with a highly successful track record of growing businesses in the mining space. While Lithium X shares are up over 300% this year, it has no revenue yet, so it should only take up a very tiny portion of your portfolio as a speculative position.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:GILD (Gilead Sciences, Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:DBO (D-BOX Technologies Inc.)

Category

1. Investing

Date

2025/08/24

Date Created

2016/06/16

Author

amancini

default watermark