2 Undervalued Growth Stocks to Buy Now

Description

In this market, it has been hard to find attractively valued stocks. But I have found two that are not only attractively valued, but that are also high-quality businesses that are seeing strong results and strong prospects going forward.

The first is **Martinrea International Inc.** (TSX:MRE), which I have liked for a while now.

The company reported another strong quarter yesterday, surpassing expectations amid better than expected margins and a strengthening balance sheet.

And while automotive industry sales are arguably at or near peak levels, at least in the short term, Martinrea is well positioned to grow even in such a market.

First, the company's international presence is small, and with only 3% of its revenues coming from international sources in 2016, there clearly is room to grow for Martinrea.

Sales in the European operating segment increased 8% this quarter to $165 million, partly due to foreign exchange, but also due to higher production volumes at the company's German operations.

Second, the industry is trending toward lighter-weight vehicles, and Martinrea is at the forefront of this secular movement, which is growing nicely as the push towards higher fuel economy is a big global phenomenon.

The company's acquisition of Honsel in 2011 has put it in an enviable position with regard to less-heavy aluminum products.

And lastly, Martinrea will continue to reap the rewards of its operational improvements and efficiencies that are being achieved as well as the fact that it is focused on higher-margin business and, ultimately, a more profitable one.

The company continues to make good progress in increasing margins and efficiencies across the board, as the gross margin was 13.5% in the quarter versus 10.2% in the same quarter last year.

For comparison purposes, and to illustrate how effective the company has been in increasing margins, we should note that 2016's gross margin was 10.9%, up from 10.4% in 2015 and 9.7% in 2014.

Another undervalued stock to own is **Hardwoods Distribution Inc.** (TSX:HWD), a company that has been quietly benefiting from the recovery in the U.S. housing market as well as from foreign exchange trends that are working in its favour.

In the latest quarter, revenue increased 9.3% with organic growth of 3.4%, and gross margins have increased over the years to 18.5% from the 17% range a couple of years ago.

While the company has been adversely affected by the U.S. government's trade case aiming to place countervailing and anti-dumping duties against imported hardwood produced in China, the company estimates that only 11% of its business is impacted by this.

The stock trades at an attractive 12 times this year's expected earnings, and with top-notch returns (17% ROE), an increasing margin profile, strong balance sheet, and good cash flow generation, this stock represents good value.

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2. TSX:MRE (Martinrea International Inc.)

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