2 High-Growth Stocks Hitting New Highs

Description

The TSX has struggled in the first quarter of 2018, and investors have most likely seen their portfolios drop in value. However, there are two high-growth stocks that have continued to outperform the market and have turbo-charged investors' portfolios. **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) and **Spin Master Corp.** (TSX:TOY) have both reached 52-week highs. Will this upward trajectory continue?

Shopify is Canada's tech darling and its share price has returned a whopping 331% since its IPO in 2015. Shopify is a cloud-based, multi-channel commerce platform designed for small- and medium-sized businesses. It operated as Software-as-a-Solution business and generates revenues through subscriptions fees.

Traditional valuation metrics are not useful when looking at a high-growth company like Shopify. The company is growing at such an impressive clip that it needs to be constantly re-investing in the company to keep up with demand. As a result, investors should divert their attention to sales growth and monthly recurring revenue (MRR). Sales have grown at a blistering pace and increased 73% year over year (YOY) in 2017. Likewise, MRR has grown at a compound annual growth rate of 77% since 2012.

The company's growth has been buoyed by some very intriguing investments. It has ventured into augmented reality, which has quickly become a strategic focus for the company. It has also been selected as the preferred platform by the Government of Ontario for the province's online and mobile retail recreational cannabis sales. As an added bonus, Shopify's technology will also be used in stores to process cannabis transactions and to manage inventory, accounting, and human resources operations. Shopify has penetrated only a fraction of its potential markets.

Spin Master is a children's entertainment company that is engaged in creating, designing, manufacturing, and marketing a diversified portfolio of toys, games, products, and entertainment properties. The company's recent spike is due in large part to its strategic acquisition of Gund stuffed-toy brand from Enesco LLC (Balmoral Funds).

The company also posted impressive fourth-quarter results, which saw revenues increase 30% YOY. While **Hasbro, Inc.** and **Mattel, Inc.** have struggled as of late, Spin Master saw growth across all its product and geographical segments. Spin Master has impressive margins of approximately 51%, which has led to an industry-leading return on equity (ROE). The company is also beginning to capitalize on its diversified product offerings through a 100% jump in royalty and television distribution income.

Spin Master's fundamental ratios indicate that the company is trading at very high valuations. It is trading at a price to earnings ratio of 32.6 and is almost trading at 10 times its book value. The company is definitely not cheap, but it has grown revenues and earnings at an impressive clip. The company has guided to high single-digit organic growth in 2018. Given its propensity to make acquisitions, it's probable that the company will continue its double-digit growth in the near future.

Bottom line

Spin Master and Shopify investors have been handsomely rewarded, and their stocks should be held for the long term. Any new investor looking to start a position should first consider Shopify, as its growth and potential far exceed that of Spin Master. If you are looking to start a position in Spin Master, I'd wait for a better entry point, while Shopify should be bought today.

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2. TSX:SHOP (Shopify Inc.)
3. TSX:TOY (Spin Master)

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