Is This Quality Small-Cap Growth Stock on Your Radar?

Description

Generally, it's probably a good idea for new investors to avoid individual small-cap stocks, because they're typically riskier than mid caps and large caps. However, if you invest in the right ones, they can be amazing return boosters in your portfolio.

Biosyent Inc. (TSXV:RX) is a small-cap stock that investors should seriously consider when it dips meaningfully. I'll explain later in the article what would be considered a meaningful dip for the stock. Before that, let's take a look at what the business does.

A business overview of Biosyent

Biosyent is a specialty pharmaceutical company, which sources, acquires or in-licenses innovative pharmaceutical products that are proven safe and effective to improve the lives of patients, and it sells them in Canada and internationally. Biosyent is focused on growing its portfolio while maintaining profitability.

Recent business performance

Biosyent's three-year revenue growth rate and net income after tax growth rate are 19% and 18%, respectively, ending in 2017. Most importantly, the company has a track record of high returns on equity (ROE) and returns on assets (ROA) since 2011.

Last year, Biosyent achieved an ROE and ROA of ~26.7% and ~23.5%, respectively. As well, it generated revenue of ~$20.8 million, net income after tax of ~$5.2 million, and nearly $5.6 million of cash. Not surprisingly, it increased its diluted earnings per share by 20%, as the company's last equity offering was in 2002; it has been reinvesting into the business the cash that it has generated from its operations.

The portfolio

Currently, Biosyent has eight marketed products, including FeraMAX, which helps prevent and treat iron deficiency, and the Aguettant System® for pre-filled syringes, which "offers a patented innovation that can be used for a variety of injectable medications in hospitals and the acute care setting … [Aguettant] has been available since 2009 and is used in several European countries including France, Belgium, and the United Kingdom," as described on the company website.

Going forward

Management forecasts the company has the ability to grow at a rate of ~20% in the long run. It already has some products with +$25 million in peak penetration expected to launch in 2019 or 2020.

When should you buy Biosyent?

Biosyent stock is known for pulling back meaningfully occasionally. For example, between August 2016 and February 2017, the stock retreated ~17% from peak to trough. Then again, between October 2017 and February 2018, the stock declined ~18% from peak to trough. So, when the stock retreats +15%, it'll be a good time to review and consider the stock.

Investor takeaway

Biosyent is a great, little stock, which has a track record of profitability under the leadership of quality management. Interested investors can start a position in the stock now, as it trades at a reasonable forward multiple of ~25.4 at the recent quotation of $10.05 per share. If you're looking for a safer entry point, consider the stock on a +15% dip.

If you're uncomfortable with buying individual small-cap stocks but want to get above-average growth from small-cap stocks, consider small-cap exchange-traded funds, such as **iShares Russell 2000 ETF** (NYSEARCA:IWM) and **iShares S&P SmallCap 600 Index** (NYSEARCA:IJR) on meaningful dips.

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