Here is the #1 Technology Growth Stock to Buy in a Market Downturn

Description

It's always a good idea to be prepared for an eventual downturn and have stocks in mind to buy when valuations become reasonable. Finding small-cap stocks can be an interesting way to capitalize on a downturn, and the best type of stocks to buy are those with growing businesses, positive earnings, and solid, preferably debt-free, balance sheets. Luckily, there are a number of small-cap Canadian tech stocks with excellent balance sheets that you can consider adding to your portfolio if the price is right.

Photon Control Inc. (TSX:PHO) designs, manufactures and distributes a wide range of optical sensors and systems to measure temperature and position. It supplies its parts and systems to the semiconductor and solid-state industries, so the company is tied heavily to the semiconductor industry.

The solutions it provides to its customers have long-lasting, 7-10-year recurring revenue streams, as its products are built into its customer's devices. With the expansion of technologies requiring semiconductors and circuits, such as robotics, connected houses and cars, and artificial intelligence, it seems likely that Photon's products will continue to be in demand for some time.

The company's growth is quite significant. Revenue grew 17% year over year in the first quarter of 2018. The company also holds a substantial amount of cash, over $33 million as of May. When you consider that the company has no debt and all its liabilities amounted to only just over $12 million, you can quickly see that Photon will be prepared to invest in its business in the future, either through organic R&D or through acquisitions.

Although it is still in the growth stage of its business, Photon still has positive earnings. Those earnings are still small, but grew 50% over the last year. Operating income also grew significantly by 90%, thereby demonstrating that this company is still on a growth trajectory.

The company does not pay a dividend, so it has decided to use some of its cash for a differentpurpose. Photon has approximately 114 million shares outstanding and has decided to repurchase upto 5.5 million of those shares for retirement. Share repurchases are sometimes considered to be a tax-efficient way to return capital to shareholders, so it is quite comforting to see Photon reducing its share count, in contrast to many growing companies that keep issuing new shares.

The biggest risk to the company is that it is tied to semiconductors, which is cyclical. It's possible that the industry, which has enjoyed a long bull run, may be on the verge of pulling back. While this may impact Photon, the company may benefit from the long-term revenue coming from its products. We're also in a technology boom, and the expansion of connected living may provide more demand for Photon's products.

Photon control is one stock to keep in mind if the market pulls back or if you want to buy a Canadian growth stock to bet on the semiconductor industry and the expansion of the Internet of Things. Although it's expensive, it's also in a high-growth sector, has recurring revenue, and appears to be allocating capital efficiently. This company should be able to weather tough times, so keep this stock in mind if the market pulls back.

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