Will This Small-Cap TSX Growth Stock Double Again and Stay Under Bay Street's Radar?

Description

It is a cluttered and largely boring scene when one analyst after the other says the same thing about the big TSX stocks. When I last checked, 17 analysts had a rating for telecom giant **BCE**. Meanwhile, it is practically a wasteland when it comes to coverage of small-cap TSX stocks.

I'll try to do justice in covering one such small cap named **Park Lawn** (TSX:PLC).

I mentioned this stock to a colleague who is an investment portfolio manager. Don't worry; it wasn't the awkward, "I have a stock tip" conversation. I actually didn't say much at all; he did the talking. Park Lawn has a $552 million market cap, and it operates funeral, cremation, embalming, and cemetery services throughout parts of Canada and the eastern U.S.

This conversation, combined with several solid articles by Joey Frenette, convinced me to dig into Park Lawn. I noticed that Ambrose O'Callaghan has also made a case recently.

A few facts about Park Lawn from recent history

- Park Lawn has outperformed the TSX composite by a factor of 4.7. That's right; Park Lawn is up 33.4% in one year, while the TSX composite churned out a gain of 6.9%.
- The price-to-earnings (P/E) ratio is incredibly high. With a trailing P/E of 79, it shows that investors have to pay up if they want to own this stock.

In the summer of 2014, this stock traded for under $10. I could see this stock hitting $30 by 2019. The math on that kind of return is easy and sweet.

Turning to the most recent annual report from March 2018, the company makes a sincere effort to articulate the risks of investing in Park Lawn. A company that warns investors of potential downsides … how rare is that?

What Park Lawn says about its own investment risks

- Weather: the company operates 144 properties. That is a lot of grounds keeping. Natural disasters can wreak havoc, just as we have seen in various parts of Canada. Clean ups can be costly.
- Staff cost: although revenue has been steady, growing at median annual increase of 32% since 2013, so have staff costs. Each of the funeral homes and cemeteries will be staffed independent of business. The fact that Park Lawn operates in generally strong urban locations, like central Toronto, Detroit, and New Jersey, means that business should remain pretty steady.
- Cremation: more people are choosing cremation over burial. This is a more cost-effective service that will affect Park Lawn revenue long term.

Other interesting things to consider about Park Lawn.

- Liquidity: that portfolio manager that I mentioned — he has lots of assets to oversee. He can't easily buy Park Lawn shares for his clients because liquidity is low. What does that mean? On average, only 40,000 shares are traded daily for this stock, which is 50 times lower volume than … pick any of the big TSX banks. Forty thousand shares may seem like a lot, as it is approximately $1 million in share value for Park Lawn. I have to assume, however, that Bay Street can't nibble at this stock because it would be too small of a position to be worth it for big funds.
- U.S. competitors: Speaking of nibbling, Park Lawn is increasing its presence in the U.S. through acquisitions, which means that it will be facing off against larger-sized competitors, like **Service Corporation International**.

Foolish takeaway

If you are looking to spice up your portfolio and add a defensive, small-cap growth stock, then Park Lawn could be right for you. Park Lawn's earnings growth is estimated to be over 20% into 2019. This suggests that the great growth story is not over.

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