1 of These Small-Cap Stocks Is a Strong Buy Today

Description

Small-cap stocks can outperform large-cap stocks because of their increased flexibility (due to their smaller sizes) and perceived higher growth rates. For example, it's easier for a smaller company to double its revenue from $20 million to $40 million than for a bigger company to double its revenue from $2 billion to $4 billion.

With that in mind, let's take a look at a couple of small-cap stocks.

Image source: Getty Images.

CRH Medical (TSX:CRH)(NYSE:CRHM) developed the CRH O'Regan System to remove hemorrhoids with no pain, surgery, or recovery time. Hemorrhoids are a common condition, and more than half of all Americans will have experienced this often-painful condition by age 50.

Springing off from this profitable business, CRH Medical has expanded into the anesthesia business via acquisitions. About 25 million anesthetics are administered in the U.S. for endoscopic procedures every year.

In the first half of the year, CRH Medical generated nearly US$46.8 million from its anesthesia services business, which was almost 90% of its total revenue. Its total adjusted operating earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 19% to US$25.3 million.

CRH Medical just completed an acquisition in a gastroenterology anesthesia practice, which has an estimated annual revenue of US$2.1 million and is expected to be accretive to CRH Medical's EBITDA and cash flow.

The recent meaningful dip may be a decent entry point to start a position. At US$3.63 per share as of writing, the stock has 33% 12-month upside potential to US$4.83 per share, according to the consensus analyst target from **Thomson Reuters**.

Exco Technologies (TSX:XTC) designs, develops, and manufactures automotive interior trim components and assemblies primarily for passenger and light truck vehicles. It also designs, develops, and manufactures die-casting and extrusion tooling and equipment for the automotive and industrial markets.

Although Exco Technologies is a cyclical company, it's well managed and profitable. Its recent net margin is 6.7%. It has increased its dividend per share for 12 consecutive years with a three-year dividend-growth rate of 17%. Its last dividend hike in Q1 2018 was 6.25%.

Currently, Exco Technologies is on a cyclical decline. Its sales of $436 million in the first three quarters of the fiscal year declined 3.7% compared to the same period in 2017. Its diluted earnings per share fell about 12%.

The stock has declined so much that it now offers a dividend yield of 3.4%. Exco Technologies's dividend is safe, as the company maintains a conservative payout ratio of about 35%.

The consensus analyst 12-month mean target from Reuters on the stock is $11.30, which represents near-term upside potential of about 13% based on $9.96 per share as of writing.

Investor takeaway

Between the two, CRH Medical is a stronger buy today. The stock is in an upward trend and has excellent near-term upside potential. Exco Technologies stock should be able to turn around eventually, but it's impossible to predict when that'll occur. Moreover, it's difficult to catch the bottom of cyclical businesses.

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