Are You Overlooking These 2 Canadian Growth Stocks?

Description

Growth stocks are an interesting topic among Canadian market watchers at the moment. In fact, with pot stocks taking up pretty much all available headline space, growth stocks are one of the hottest subjects around. This seems an odd state of affairs considering the uncertainty in the market that looks set to finally end the epic bull run; the marijuana stock boom is a rare phenomenon, to be sure.

Looking at the stocks on the TSX with the highest growth at the moment brings back a monotonous list of miners, marijuana, and not much else of interest. I've included an overlooked miner below, simply because it doesn't get much airtime, while an eye-catching human resources stock looks like it could be suitable for a long-term savings account.

Morneau Shepell (TSX:MSI)

If computer scientists have their way, AI will be running the show in the near future, leaving human resources providers with an overabundance of supply. However, it's unlikely that our robot overlords will be taking over any time soon, and until then human resource services are in high demand.

If you've never thought of investing in HR before, buying shares in Morneau Shepell is probably one of the soundest ways to do so. It's got a market cap of $2 billion, so you know it's big enough to weather a storm, and with a one-year past earnings growth of 34.6% segueing neatly into a 29.9% expected annual growth in earnings over the next couple of years, it's got high and relatively assured growth ahead of it.

The Canadian professional services industry saw a 12-month growth of 13.1%, meaning that there are definitely gains to be had in this sector; Morneau Shepell itself beat this with its own five-year average past earnings growth of 17.9%, which suggests that you've already found your HR hero.

Overvalued by more than 50% of its future cash flow value, with overheated multiples ranging from a reasonable PEG of 1.2 times growth to a bloated P/E of 35.9 times earnings via a chunky P/B of 4.7 times book, this is not a good value stock right now, however.

Is it a good-quality stock, though, worth buying to hold for capital gains? Its return on equity was an acceptable 11% last year, while a dividend yield of 2.87% is good for a growth stock. Debt of 79.7% of net worth could be lower, but isn't dreadful. Something to watch out for, though, would be that the last 12-month period saw a greater volume of inside selling than buying. Competitors include **Aon** and **Manulife Financial** if you want to do some comparison homework.

Nevsun Resources (TSX:NSU)

A geographically diversified miner, Nevsun Resources is an overlooked gem. With a market cap of $2 billion and 75.6% expected annual growth in earnings over the next one to three years, this stock is debt free. Unfortunately, it's also dividend free, meaning that this is one for capital gains investors only.

A one-year past earnings growth of 67.3% is a vast improvement on a five-year track record of losses to the tune of -59.8% (for comparison, the metal and mining industry's past year average is 41.5%). In terms of value, it's overvalued by about 1.8 times its future cash flow value, while wonky multiples have to be taken on the value of its assets, namely a P/B of 1.7 times book.

More inside buying than selling in the last 12-month period signifies some confidence in the company from those in the loop, while competitors include **Hudbay Minerals**, **Ivanhoe Mines**, or **Lundin Mining** if you want to get an alternative mining pick (excuse the pun), or if you are looking for tickers to complement Nevsun Resources.

The bottom line

Investing in actual human beings feels not too dissimilar to the idea of investing in renewable energy, or staple stocks like **Nutrien**. An intriguing pick, to be sure, Morneau Shepell is going on my list of stocks to watch. Meanwhile, Nevsun Resources seems a good choice for capital gains, though it would appear to be somewhat poor value at present.

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