2 Cheap TSX Growth Stocks That Could Explode Higher by 2020

Description

Last year, as the markets roared higher, some pundits were complaining about the lack of value opportunities that existed in the markets. Stocks were expensive, the markets were frothy, and it wasn't easy to find decent merchandise priced at a discount to intrinsic value. Warren Buffett was hoarding cash, and so too were many of his value-oriented disciples who struggled to find anything worthy of buying.

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Fast forward to today, and there are a tonne of wonderful businesses trading at absurdly deep discounts. It's a stock picker's paradise! And as the talking heads in the mainstream financial media continue to exacerbate the fears of investors, Foolish investors will have the opportunity to swing at some pretty decent pitches thrown by Mr. Market.

Warren Buffett has begun to swing at some pitches, and if you've got enough dry powder on the sidelines, you may want to swing for the fences, because it appears that the odds of nailing a grand slam home run have suddenly increased, especially in higher-growth names, which have been the hardest hit in the nasty sell-off we're currently enduring.

I've compiled a list of two broken stocks whose underlying businesses are anything but broken. So, without further ado, let's have a brief look at each opportunity to see which, if any, is suitable for your growth-oriented portfolio.

Spin Master (TSX:TOY)

Now down 33% from its all-time high, Spin Master is one of the few double-digit growers that trades for under 15 times forward earnings.

Next year, the company is slated to receive a big boost from international business, which will serve to bolster growth further, potentially triggering a surprise earnings beat that could propel the stock back to its all-time high.

As my Foolish colleague Kay Ng put it, Spin Master has incredible profitability metrics, with ROA, ROE, and ROICs at 11-19%, 39-132%, and 29-79% between 2015 and 2017. While the triple-digit ROE numbers are obviously not sustainable going forward, I believe the company is small enough and innovative enough to continue posting +20% ROE numbers moving forward, especially if the company decides to take on a bit more debt to finance acquisitions that are abundant in the toy market after the bankruptcy of U.S.-based Toys “R” Us locations.

Simply put, Spin Master is a misunderstood growth stock that’s been beaten up due to a lack of material news and a previous quarter that was plagued with one-time issues from Toys “R” Us closures. I think the post-earnings flop was utterly unwarranted and will be made up for in 2019.

Kinaxis (TSX:KXS)

Tech stocks have gotten beaten up severely over the last few months, and Kinaxis wasn’t spared from the carnage. Like Spin Master, Kinaxis is also down around 33% from the top thanks in part to a sub-par quarter which exacerbated the downward move for Kinaxis in the midst of one of the nastiest tech-driven sell-offs in recent memory.

Kinaxis gave fairly conservative guidance in its last quarter, and given it’s more than probable that the company’s delayed European deals will be closed in the quarters ahead, it appears that the bar has been set so low such that Kinaxis will easily pole-vault over expectations in upcoming quarters.

Further, given Kinaxis is in a smoking-hot industry (SaaS supply chain solutions), the company will be riding a powerful secular tailwind over the next five years. If you’re looking to punch a ticket to what could be Canada’s next big growth story, now would be a perfect time.

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The bar is low, and the valuation appears modest given the next-level growth that can be expected from the name. Now, I don’t know if we’re anywhere near the bottom. Probably not, if the broader tech sector continues to retreat, but it certainly can’t hurt to get a bit of skin in the game today.

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2. TSX:TOY (Spin Master)

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