



My Top 3 Small-Cap Stocks for 2019

Description

In times of turmoil, small-cap stocks are almost always hit harder than their larger peers.

Sometimes it's for good reason. During economic volatility, smaller companies may find it harder to compete or raise much-needed capital. But often they're thrown out with the bathwater as investors cycle into better known names that they equate with quality. This provides great opportunities for prudent investors to buy into fundamentally strong small-cap stocks at a steep discount.

While each company below has unique circumstances, they all warrant your consideration.

Guyana Goldfields Inc. (TSX:GUY)

Of all the companies on this list, Guyana Goldfields is the epitome of a fundamentally strong stock getting hit by selling pressures that have nothing to do with its individual merit.

In June, an \$18 billion ETF decided to permanently ditch its allocation of small, junior miners like Guyana Goldfields. This removed \$2.6 billion dollars' worth of capital from these smaller players. According to one estimate, that works out to one week's worth of volume per stock.

Since that event, shares are down about 75%, yet production is set to rise dramatically over the next few years. Plus, all-in production costs will fall by nearly 40%. The risk-reward payoff for this stock is one of the best I've seen.

ZCL Composites Inc. (TSX:ZCL)

The smallest company on this list, ZCL operates in an incredibly niche market: it's the world's largest manufacturer of underground fiberglass storage tanks. It has a 60% market share, zero debt, generates plenty of free cash flow, and pays a fully covered dividend of more than 7%.

Since 2012, ZCL has paid out \$95 million in dividends while repurchasing \$10 million in stock. In total, that's nearly the entire market cap of ZCL today! In 2018, ZCL repurchased an additional 400,000 shares for about \$2 million.

While the stock will remain volatile due to limited liquidity, ZCL should continue to plod along for years to come, regularly returning gobs of cash to patient shareholders.

Ballard Power Systems ([TSX:BLDP](#))([NASDAQ:BLDP](#))

Ballard designs and manufactures proton exchange membrane fuel cell products. Mostly, that means they provide battery solutions for clean technologies like electric vehicles and distributed power infrastructure. There are plenty of ways to envision Ballard becoming a multi-billion dollar company over the next five years, which would provide plenty of upside from today's prices.

In December, Reuters announced that automakers would be pouring billions of capital into batteries and fuel cells, both of which Ballard specializes in. For example, **Daimler AG** will be buying \$23 billion worth of battery cells by 2030. Hyundai will also be spending \$7 billion to strengthen its weak position in clean energy vehicles.

Near term headwinds in China have provided a temporary buying opportunity in what will be a long-term story.

Here's what to do

There are plenty of ways to play this list. If you're looking for a quick bounce-back candidate, Guyana Goldfields is about as good as it gets. Dividend players will find a predictable, income-investor's dream in ZCL Composites. And if you're willing to stomach volatility for a multi-year play, Ballard Power Systems is for you.

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