The Best of the Rest: 4 Canadian Growth Stocks With High Valuation Ratios

Description

Growth investment usually takes two distinct forms when it comes to investing in the TSX index: buying for future capital gains and buying for ongoing dividends. Among the best quality growth stocks to buy now, investors will find a spread of very diverse data, which includes a whole range of multiples, outlooks, track records, and other indicators of value, quality, and momentum.

Below you will find a few of the best growth stocks currently trading on the Toronto Stock Exchange, with a brief breakdown on whether they would suit a low-risk dividend portfolio.

Ballard Power Systems (TSX:BLDP)(NASDAQ:BLDP)

In terms of track record, Ballard Power Systems saw a negative one-year past earnings of -198.2%, though its five-year average past earnings growth has been positive at 13.3%. With a low debt level of 5.6% of net worth, it appears to be a healthy stock that can be held for the long term. The main draw is a 60.8% expected annual growth in earnings; however, with overvaluation in terms of assets signaled by a P/B ratio of 5.1, this non-dividend-paying stock would not suit a passive-income investor.

CannTrust Holdings (TSX:TRST)

A 43.4% expected annual growth in earnings and low debt level of 5.5% of net worth make CannTrust Holdings our Canadian marijuana pick for this list. It's only real issue, though, is that it's really not good value right now: look at that hefty P/E of 47.7 and bloated P/B ratio of 5.1.

What CannTrust Holdings does offer — besides high growth — is some decent momentum: a beta of 2.59 relative to the Canadian pharma industry and a share price that's up 14.86% in the last five days to about double the future cash flow value shows a wildly oscillating ticker just right for capital gains investment.

Park Lawn (TSX:PLC)

A one-year past earnings growth of 8.1% trails the closest applicable industry, namely the Canadian consumer industry, which itself enjoyed an average growth in earnings of 25.7%. Meanwhile, Park Lawn's five-year average past earnings growth of 20.6% is overall closer to the industry.

Park Lawn's level of debt is nice and low at 16.5% of net worth, making this a stock that can be bought and held for the long term. However, the main issue with Park Lawn stock is that it's not the best value on the TSX index: a P/E of 66.2 is too high, while a P/B of 1.5 is so-so. That said, a dividend yield of 1.9% paired with a high 48.3% expected annual growth in earnings adds to the appeal.

Wesdome Gold Mines (TSX:WDO)

Eyeing a gold stock for your TFSA? You may have seen that Wesdome Gold Mines is looking at a 46.4% expected annual growth in earnings, following on from a one-year growth in earnings 237.2% that trounced the Canadian metals and mining industry average as well as its in-house five-year average of 47.3%. However, it's not a dividend-payer, and with a P/E of 49.6 and P/B of 3.8, it's not attractively valued at the moment.

The bottom line

Value investors looking for growth stocks on the TSX index have a clear winner in this grab-bag of cheery tickers: Park Lawn. While the other stocks listed here do indeed have high growth ahead, they're not suitable for a passive-income portfolio; investors looking for dividends in their respective industries will have to search farther afield.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NASDAQ:BLDP (Ballard Power Systems Inc.)
2. TSX:BLDP (Ballard Power Systems Inc.)
3. TSX:PLC (Park Lawn Corporation)
4. TSX:WDO (Wesdome Gold Mines Ltd.)

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