These 2 Growth Stocks Have Double-Digit Upside

Description

One of the reasons retail investors struggle to beat the market is because they let fear get the best of them. They are easily influenced by one-time events and often make rash decisions as a result. Recently, two of my favourite growth stocks were pummeled on one-time news.

Savaria (TSX:SIS) and **Park Lawn** (TSX:PLC) both saw significant losses as they announced new share offerings. Savaria's stock price dropped by 10% and Park Lawn followed suit, losing approximately 8% of its value. Savvy investors will know that now is the time to buy.

Share offerings

First, the details. Savaria announced a private placement for five million shares at a price of $14.15 with gross process of $70.5 million. Underwriters are also entitled to an additional 750 thousand shares at the offering price at any time up to 48 hours prior to the closing date of April 24, 2019. As such, Savaria could issue an additional 5.75 million shares when all is said and done.

For its part, Park Lawn is issuing 4.874 million shares at $25.65 per share. The company will gross proceeds of $125 million and the underwriters have the option to purchase an additional 731.1 thousand shares up to 30 days after closing on April 23. In total, an additional 5,605,100 shares can hit the open market.

Why the share drop? The effect is immediately dilutive to existing shareholders. Savaria has increased its share count by almost 13%, while Park Lawn's resulted in a 24% increase. It is interesting to point out that Savaria's share price took a bigger hit, despite being less dilutive to existing shareholders.

Top growth stocks

Savaria and Park Lawn are high-growth companies with small market capitalizations. They also have a similar growth strategy — that of growth through acquisition. This is an expensive strategy and requires significant capital. As small caps, they don't have access to loads of debt to help fund acquisitions.

They are often limited by the availability of credit. It is for this reason that these types of companies go to market through share offerings to help raise capital.

In turn, this capital is used to reduce debt and make further acquisitions. How do we know this? They both have a history of doing this exact thing and both used the same term “fund future growth acquisitions” in their press releases.

In 2019, Park Lawn and Savaria are expected to grow earnings by 32.50% and 55%, respectively. Over the long term, both are expected to maintain double-digit growth rates. These estimates do not include any future potential acquisitions.

Foolish takeaway

The recent share price weakness is a great opportunity for investors. Savaria is still trading below the offering price of $14.25 and Park Lawn is now trading in line. Once the market digests these shares over the next couple of months, expect them to bounce back and start a new upwards trend. How do I know this? This pattern has been consistent with their last number of share offerings.

Analysts have a one-year price target of $30.61 on Park Lawn, which implies 19% upside from today’s price. Savaria looks even more attractive with a one-year price target of $17.88, which is 31% ahead of today’s price.

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2. TSX:SIS (Savaria Corporation)

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