2 Stocks Peter Lynch Would Love

Description

Peter Lynch is one of the most respected and successful value investors of all time. What he is most famous for however, is his use of the price-to-earnings to growth (PEG) ratio. The PEG ratio addresses some of the limitations behind the more widely used P/E ratio. Whereas the P/E ratio is based entirely on historical data, the PEG ratio takes future growth expectations into account.

One of Lynch's investment principles centered around a PEG of one. If a company had a PEG ratio below one, then its stock price is not keeping up with expected growth rates. As such, it is deemed to be undervalued. The opposite is also true. A PEG above one is a sign that the company's stock price has gotten ahead of expected growth rates.

With that in mind, here are two stocks that past the PEG test that are all trading at a discount to future growth rates.

BRP Inc (TSX:DOO)(NASDAQ:DOOO)

BRP is a leading global provider of power sport and marine products. It offers a wide-range of goods such as all-terrain and three-wheeled vehicles, snowmobiles, personal watercraft and propulsion systems. It manufactures under the Can-Am, Ski-Doo, Lynx, Sea-Doo and Evinrude brands, which are among the most respected in the industry.

In 2019, BRP's stock price has rebounded nicely and is up almost 30% this year. However, it still has plenty of room to run, as it is approximately 30% below where it was this fall. As of writing, it is also still trading at a 71.5%% discount to its 52-week high of $74.67.

Over the past five years, the company has grown earnings by 28% annually. Although growth is expected to slow, the company recently raised guidance after a strong first quarter. The company expects approximately 18% earnings growth. At a P/E of 17.8, this gives BRP a PEG ratio just below one. Analysts are also bullish on the company and have a one-year price target of $54.25. This implies approximately 25% upside from today's price.

goeasy Ltd (TSX:GSY)

Easily one of my favourite financial stocks, goeasy has been rewarding shareholders in a big way. This year, the company's stock price has shot up 42%, rewarding investors with gains of 73% and 143% over the past two and five years.

Despite its run-up, the company is still cheap. Over the next couple of years, this alternative banking star is expected to grow earnings by almost 40% annually. When compared against its P/E of 12.80, the market is still undervaluating the company. Case in point: it has a ridiculously cheap PEG ratio of 0.32.

Consider this: goeasy is expected to grow earnings to $5.11 per share in 2020. Assuming it meets expectations (which it has every year since 2011), the stock will deliver impressive gains. At today's depressed P/E ratio of 12.80, its stock price will rise to $65.40 per share for a one-year gain of approximately 30% even if it continues to trade a low P/E. The risk-reward proposition is very attractive.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:DOOO (BRP Inc.)
2. TSX:DOO (BRP Inc.)
3. TSX:GSY (goeasy Ltd.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/30
Date Created
2019/06/12
Author
mlitalien