Recent IPOs Have Plenty of Upside

Description

The Canadian initial public offering (IPO) market isn't as buoyant as the one south of the border. Likewise, retail investors why buy into the IPO hype are often left with significant losses. This is especially true of retail investors who aren't successful in getting in on the ground floor. Investors who must wait until the stock begins trading on the open market don't usually fare as well and are buying at a potential peak.

Research has shown that between 2001 and 2014, average first-day returns for U.S. IPOs was 13.6%. On the flip side, if retail investors manage to get their full allotment in on the initial offer, there is a good chance that those who knew better, avoided the IPO. This is referred to as the "winner's curse."

IPOs are speculative buys at best, and it is very important for investors to take the time and read through the prospectus. Due diligence is of the utmost importance when deciding if putting your hard-earned money towards an IPO is worthwhile.

With that in mind, Canada's has found some big success with recent retail IPOs. Case in point: **Canada Goose Holding**s (TSX:GOOS)(NYSE:GOOS) and **Artizia** (TSX:ATZ). Recent downtrends have made both of these companies attractive buys today.

Triple-digit gains

Since IPOing in March of 2017, Canada Goose Shareholders have enjoyed total returns of 128% for a compound annual growth rate just over 55%. It has, however, been a tough year for the company. Canada-China relations have put a strain on the company's stock price, as China is seen as its top growth market. As a result, its stock price is down approximately 12% this year and is off more than 45% its 52-week high of $95.58.

Concerns over slowing growth are overdone. Goose continues to fly high, and it has beat estimates in every quarter since its IPO. Analysts expect approximately 25% average annual earnings growth over the next five years and have a one-year average price target of $69.67. This implies 33% upside from today’s price.

Struggling to find a footing

For its part, Artizia hasn’t gotten off to a blistering start like its high-flying peer. In fact, since its IPO in the fall of 2016, Aritiza has lost 9.47% of its value. In 2019, the company has eked out a 3.23% gain, which pales in comparison to the TSX’s 16% returns. For contrarian investors, this is a good time to buy.

The company is trading at a cheap 16.68 times forward earnings and at a P/E-to-growth (PEG) ratio of 0.94. A PEG below one is a sign that the company’s share price is not keeping up with expected growth rates. It is thus considered undervalued. Growth rates are expected to be in the 20% range over the next five years.

Analysts are unanimous in their coverage on the stock as all nine rate the company a “buy.” The low price on the street is $19, which is 12.2% above today’s price, and the average one-year price target of $22.50 implies 33% upside.

Although it got off to a rough start, the company has beat on both the top and bottom lines in five straight quarters. Management has navigated the early headwinds and is now delivering consistent results. This is a recipe for the stock to reach new heights.

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