



3 Small-Cap Stock Picks for July

Description

If you don't have enough small-cap stocks in your portfolio, now is your chance to boost your upside potential.

Due to their small size, many small-cap stocks don't get much attention from investors or analysts. That typically causes a "growth discount," forcing smaller companies to trade at a cheaper valuation than their larger peers.

This discount has helped small-cap stocks to outperform historically. Study after study shows that if you have a long time horizon and want to maximize gains, small-caps are the way to go.

Which small-caps should you buy? Here are your top three options today.

Drink the Kool-Aid

Andrew Peller Limited ([TSX:ADW.A](#)) has a market cap of just \$600 million. Still, less than a decade ago, the company was worth just \$100 million. What happened? Efficiency.

Andrew Peller owns an impressive portfolio of wine brands, including popular options such as Peller Estates, Trius, Hillebrand, Thirty Bench, Sandhill, Copper Moon, and Red Rooster. From 2015 to 2018, sales only grew by 12%. EPS, however, almost doubled. Through strict cost controls, Andrew Peller's management team has turned this sleepy business into a profitable enterprise.

"I wanted to highlight how proud I am of the effort our operations team has put in to build our efficiency," commented CEO John Peller on the last conference call. On nearly every metric, profitability has been on a straight line-up.

Shares trade at a lofty 20 times forward earnings, and while the company is high quality, that's just too much of a price to pay. Pay close attention though. In 2018, shares shed 30% of their value. If another dip occurs this month, be prepared to jump in.

Major growth

goeasy Ltd ([TSX:GSY](#)) has a huge [growth opportunity](#) ahead of it, even after the stock price increased by 150% over the last five years. Since 2012, shares are up an astounding 1,000%.

If everything goes according to plan, this stock could double or triple again and again.

With hundreds of locations across Canada, goeasy provides small loans to individual customers, up to \$35,000. A typical loan duration is between one and 10 years, and interest rates start at roughly 20%.

goeasy has made its name servicing borrowers who can't tap the traditional finance market for whatever reason. While competitors treat this segment of the population poorly, goeasy has instead dedicated itself to high standards of customer service. The company has a whopping 96% satisfaction rate.

Management wants to grow sales by 10-20% per year while maintaining returns on equity of around 25%. That shouldn't be a problem, however, as goeasy has barely penetrated the U.S. market, which is more than 10 times the size.

An industry leader

Cargojet ([TSX:CJT](#)) is a fantastic stock. Since 2013, shares are up nearly 1,000%, which should come as no surprise if you're familiar with this management team.

The company operates a critical air transport network throughout Canada, with a particular focus on time-sensitive packages. Because Canadian weather, topography, and regulations are fairly specific, Cargojet has been able to dominate its domestic market despite other transportation businesses approaching commoditization. The limited size and scope of the country relative to close-by peers like the U.S. help ensure no major competitor moves into its turf.

What I love about Cargojet is that it operates in the shadows. It has partnerships with more than 50 international brands that allow companies like **United Parcel Service, Inc.** to seamlessly integrate their shipping services. That way, UPS can offer integrated, high-speed shipping throughout Canada without the end-customer ever knowing there was an intermediary.

While Canada's economy isn't growing too quickly, the rise of online sales has contributed to sustained earnings growth. Less than 10% of retail sales in Canada are executed online. Still growing in the double digits, online sales should continue to fuel Cargojet's growth for years to come.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ADW.A (Andrew Peller Limited)
2. TSX:CJT (Cargojet Inc.)
3. TSX:GSY (goeasy Ltd.)

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