3 Mid-Cap Stock Picks for July

Description

Mid-cap stocks are often ignored. That's a shame, as they're a great way to get rich.

Mid-cap companies aren't tiny enough to be considered small caps, but they're not big enough to be considered large-caps. They're usually worth only a few billion dollars, which is big enough to provide some serious firepower, but small enough that most everyday investors don't know that these companies even exist.

You can use this ignorance to your advantage. Numerous studies demonstrate that mid-cap stocks can outperform both large-cap *and* small-cap stocks over long periods. It's the closest thing you can get to a free lunch: bigger returns without extra risk.

If the market is ignorant of the existence of these stocks, how do you find them? We did the hard work for you and uncovered your top three opportunities this month—including one of my favourite stocks for 2019 and beyond.

Crazy cheap

Linamar (TSX:LNR) is currently worth $3 billion, the sweet spot for mid-cap stocks. The investment case here is simple: the stock is outrageously cheap. Analysts expect the company to earn $8.96 per share this year, meaning the stock trades at just five times forward earnings.

Keep in mind, however, that profits are still growing and have a three-year average growth rate of 8% annually. Sales last year grew by 16%. Returns on equity are in the double digits.

It's only with mid-caps that you get such a pricing disparity. Linamar is an established company with a proven track record, yet the market assigns it a rock bottom valuation. Growth has slowed in recent quarters, but over the next five years, analysts anticipate EPS to increase by 9% per year. The current trading price is simply a steal.

Double or triple

Torc Oil and Gas Ltd (TSX:TOG) is on the smaller side, valued at just under $1 billion. Earlier in the decade, the company was worth more than $5 billion. What's changed?

Torc produces oil and gas in Western Canada. Due to depressed gas prices and limited regional transportation infrastructure, most of its competitors have struggled to survive. Torc seems to have been unfairly lumped in with its lower-quality peers.

At US$50 per barrel oil, the company should still be able to fund its maintenance capital requirements and service its outsized 7% dividend. If prices rise to US$70 per barrel, Torc would generate $210 million in free cash flow. That's a 24% free cash flow yield! If that becomes a reality, the stock would likely double or triple.

A proven winner

The California Gold Rush of 1850 minted many millionaires. Unfortunately, most of the winners weren't miners at all. Instead, they were the people *supplying* the miners. There's a good lesson here: during a gold rush, be the person selling the shovels. If you want to own the "shovel seller" for stocks, opt to purchase an entire stock exchange. You can do so with **TMX Group** (TSX:X).

At $5 billion, this stock is solidly within mid-cap territory, which has likely caused the market to under-appreciate its transformation from a plain vanilla stock exchange to a data powerhouse. TMX Group used to make a large chunk of money charging fees to list and trade a stock.

It still earns revenue from that business, but it's also expanded into new fields like data analytics and processing. For example, it now offers algorithmic services that can help clients with complex trading strategies that use massive amounts of data.

TMX Group is actually a tech stock even though it's being valued as a traditional stock exchange. Once the market catches on, there could be rapid upside.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:LNR (Linamar Corporation)
2. TSX:X (TMX Group)

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