3 Top Small-Cap Stocks to Buy Right Now

Description

If you have the right strategy, investing in stocks with small capitalizations can provide outsized returns. Despite the tendency to lump them together, small caps are not penny stocks. There are several high-quality companies out there that often get overlooked because of their size.

When searching for the best of the best, consider using the triple-threat methodology. These are companies that pay a dividend, are considered growth stocks, and provide excellent value. In other words, they can fit in any of the three most common stock types.

Taking this into account, here are three small-cap stocks for your consideration.

Stingray Group

A diversified media company, **Stingray Group** (TSX:RAY.A) provides business-to-business multi-platform music and video solutions world wide. In early August, the company released strong first-quarter results that sent its stock price soaring. Despite jumping 21.88% over the past month, it is still trading at an 18% discount from where it was a year ago.

As of writing, Stingray is trading at a cheap 8.09 times forward earnings and has a P/E-to-growth (PEG) ratio of only 0.40. This implies that its stock price is not keeping up with expected growth rates. Revenue is expected to grow by an average of 26% annually over the next couple of years, and earnings have a five-year average expected growth rate of 23%.

The company is also quietly on the verge of becoming a Canadian Dividend Aristocrat. It has a four-year dividend-growth streak, and assuming it does not cut its dividend by end of year, it will join the list in 2020. It also has an attractive 3.54% yield.

Sleep Country Canada

Canada's leading mattress retailer, **Sleep Country Canada Holdings** (TSX:ZZZ), has also enjoyed a nice rebound in August. After posting strong second-quarter results, its stock price has jumped 14% this past month. Unfortunately, it is down 36% from where it was a year ago.

Thanks to share price weakness, it is not surprising to see the company is now undervalued. It is trading at only 11.5 times forward earnings and has a 0.61 PEG ratio. For those who think that sector growth is dead, think again. Sleep Country is expected to grow earnings by 20.5% on average over the next five years. Analysts agree and are very bullish on the stock. All seven covering the company rate it a “buy” and have a one-year price target of $23.71 per share.

Like Stingray, it has raised dividends for four consecutive years and will achieve Aristocrat status next year.

Polaris Infrastructure

Unlike the other two on the list, **Polaris Infrastructure** (TSX:PIF) has delivered strong returns. The renewable energy company is up 18% year to date and 36% over the past year. Yet it remains attractively priced. It has a PEG ratio of 0.63 and is trading at only 12.46 times earnings.

Revenue is expected to average 10% growth, while earnings are expected to grow by 77% annually over the next five years. Analysts are unanimous in their coverage of the company with a “buy” rating and a one-year average price target of $19.23 per share. This implies 35% upside.

Polaris yields a juicy 5.70% yield and has a modest three-year dividend-growth streak. Considering its expected growth rates, investors can expect strong dividend growth to continue over the next few years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PIF (Polaris Renewable Energy)
2. TSX:RAY.A (Stingray Group Inc.)
3. TSX:ZZZ (Sleep Country Canada)

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mlitalien