Can These 2 Small-Cap Growth Stocks Power Your Investment Portfolio?

Description

Small caps are stocks that have market capitalizations below $1 billion. This is the generally accepted definition. Likewise, micro caps are those with a market cap below $500 million. Although these stocks can be highly volatile, there are some high-quality companies in this space that are worthy of investors' attention.

Earlier this month, I brought to your attention two micro caps that have the potential to yield outsized returns — **Hamilton Thorne** (TSXV:HTL) and **WELL Health Technologies** (TSX:WELL). Earlier this week, Hamilton Thorne released strong preliminary results, and it is up by 7.4% in only a few weeks.

It was a record quarter and year for one of world's leading Assisted Reproductive Technology (ART) companies. Fourth-quarter revenue of $10.8 million and EBITDA of $2.2 million represents growth of 34% and 27%, respectively. Margins continue to trend upward, and Hamilton Thorne experienced growth across all of its segments.

For the fiscal year ended December 2019, it posted record revenue of $35.3 million and adjusted EBITDA of approximately $7.1 million. Once again, this represented strong growth of 21% and 14.6% over fiscal 2018.

Not only did the Hamilton Thorne pre-announce strong results, management also introduced the company's 2020 outlook. The company is looking to drive strong growth across its U.S. and U.K. equipment businesses and has several big sales in the pipeline for 2020. Although these bigger-ticket items are lower margin, the focus remains on driving top-line and adjusted EBITDA growth.

The company also re-iterated plans to execute its growth-through-acquisition strategy. Speaking of which, its latest acquisition — Planer — contributed approximately $1.6 million in revenue to fourth-quarter results.

In 2019, Hamilton Thorne's share price climbed 23%, and it is well on its way to posting double-digit gains again in 2020. After announced preliminary results, the company briefly touched a 52-week high of $1.50 per share. This is close to analysts' one-year average price target of $1.54 per share and implies 15% upside from today's share price of $1.30 per share.

The top stock on the TSX Venture

Another small cap garnering plenty of attention is **DynaCERT** (TSXV:DYA). The company is involved in the design and manufacturing of a transportable hydrogen generator system. DynaCERT's technology reduces carbon emissions in diesel engines. This makes it an attractive investment for those looking for eco-friendly investment options.

This past Thursday, the company was announced as the top stock on the TSX Venture 50. The TSXV 50 is an annual ranking of the top-performing stocks on the venture exchange. In 2019, DynaCERT's share price shot up by 284%, more than tripling investors' investment.

Is DynaCERT a buy? Unlike Hamilton Thorne and WELL Health Technologies, the company remains a speculative buy on the basis that it generates little revenue and is far from profitability. It is early days for this eco-stock, and investors can expect considerable volatility.

Can the company post a repeat performance in 2019? It will be a tough task. On the bright side, the company has the shift to renewables and sustainable investing as a tailwind. Investors are craving for the next clean energy company, and DynaCERT's technology certainly fits the build.

Foolish takeaway

Hamilton Thorne is poised to continue strong growth and is one of those rare small caps that is profitable. It remains a top micro cap and is worthy of investors' consideration. On the flip side, DynaCERT is still in the "prove itself" stage, and investors should not rush out and start a position in the company based solely on last year's performance. That being said, it is worth adding to watch lists.

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