



Market Crash: A Million-Dollar Idea to Make a Million

Description

This coronavirus market crash has brought many opportunities for contrarian investors. Despite the recent surge, the **TSX Composite Index** is still 20% lower against its all-time highs in February.

Notably, this market crash has brought several high-quality stocks to bargain levels. Investors should not look at this crash as a short-term chance in order to time the market. However, this is a worthwhile opportunity to [buy high-quality businesses](#) at lucrative levels and hold them for the long term.

Tax-Free Savings Accounts (TFSA) are one of the best tax-efficient investment options available to Canadians. TFSAs will exempt any dividend and capital gain throughout the investment period even at withdrawal.

The maximum individual TFSA contribution limit for 2020 stands at \$69,500, and at \$139,000 for some millennial couples. Thus, TFSA can be used to build a robust portfolio amid this market crash. Let's take a look at such an opportunity.

Market crash: High-growth stock at a discounted valuation

BRP Inc ([TSX:DOO](#))([NASDAQ:DOOO](#)) designs and manufactures propulsion systems and power sports vehicles. The stock fell around 60% amid the COVID-19 crash so far this year, which has brought it around \$25 levels.

The massive fall in BRP is evident as the virus outbreak has severely hampered consumer discretionary spending. However, this is not the first time BRP stock has seen such a terrible fall. The stock tumbled from \$70 to \$30 in late 2018, but investors should note that it more than doubled in the subsequent 12 months.

What makes BRP a compelling investment proposition at the moment is its leadership position and a discounted valuation.

The company has a diverse product portfolio that includes all-terrain vehicles, snowmobiles, and

watercraft. The famous brands such as Sea-Doo watercraft, Can-Am vehicles, Alumacraft, Ski-Doo, and Lynx snowmobiles fall under its umbrella.

It has a leading market share in watercraft and snowmobiles, giving it all-important—pricing power. BRP has also consistently outplayed the North American Powersports retail growth in the last four years.

The strong performance is also highlighted in BRP's financials. The company's revenues and earnings on average increased by approximately 15% in the last three years. The lockdowns caused by the pandemic will indeed have [a severe dent](#) on its bottom line this year. However, its long-term growth outlook remains intact.

A \$2.6 billion company BRP, operates in more than 120 countries. It derives more than 54% of total revenues from the U.S., while almost 30% comes from internationally and the rest from Canada.

BRP: Valuation

BRP stock is currently trading at a forward price-to-earnings multiple of 7 times. This is significantly inexpensive compared to its five-year historical average of 17 times. Notably, the stock might continue to trade volatile amid the broad market weakness.

However, the stock looks an extremely lucrative bet from the valuation standpoint after the market crash. Thus, buying in multiple installments will ensure that a large chunk gets invested near the lows, which will be fruitful for [long-term investing](#).

Since 2016, BRP stock has returned more than 30% compounded annually till the start of 2020. If one had invested \$10,000 in the stock four years back, he or she would have accumulated around \$30,400 by January 2020.

However, it would not be prudent to expect such high returns on a consistent basis over the long term. If we assume that a millennial couple invests \$139,000 in BRP stock for 10 years, a 25% compounded annual return would generate around \$1.3 million. A longer investment period will allow lower returns in order to generate a similar corpus.

Also, even if BRP has delivered more than 30% CAGR in the last four years, our assumption of 25% is still optimistic. However, given its previous recoveries and pent-up demand after the lockdowns are released, the stock could again race to its recent peak.

Investors should note that BRP stock looks particularly lucrative at the moment after its brutal fall amid the market crash. Its innovation, leadership position in the niche market and new product launches will likely make up for lost time.

CATEGORY

1. Coronavirus
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1. NASDAQ:DOOO (BRP Inc.)
2. TSX:DOO (BRP Inc.)

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Author

vinitkularni20

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