This Small TSX Stock Could Fetch Huge Returns

Description

So far, **Park Lawn** (TSX:PLC) stock has declined more than 34% this year. Meanwhile, it is down about 40% from its 52-week high of $31.77. The broader market selloff didn't spare this funeral services company. Investors should note that the company's business is deemed essential, implying the COVID-19 outbreak is unlikely to impact its operations much.

Moreover, Park Lawn continues to perform exceptionally well on the financial front, which implies that the company has a strong potential to generate significant returns in the long run. Further, the significant decline in its stock price presents a good entry point for long-term investors.

Robust financials

Park Lawn's revenues, adjusted EBITDA, and adjusted net earnings continue to grow at a breakneck pace. The company's revenues and adjusted EBITDA have grown by more than 50% in the last two years. Meanwhile, its adjusted net earnings also increased at a robust pace.

In the most recent quarter, Park Lawn posted a top-line growth of 47.5% year over year. Meanwhile, its adjusted EBITDA increased by about 46%.

Park Lawn has several catalysts that are likely to boost its financial performance in the coming years. The company operates in a segment that has high barriers to entry. Zoning laws, mainly in cemeteries, and pricing pressure on smaller players in the sector work in favour of the company. Meanwhile, an ageing North American population and its presence in markets with high cremation rates indicate increased demand for the company's offerings.

Park Lawn is known for its strategic acquisitions, which have cemented its position as the biggest publicly traded Canadian company in this space. Park Lawn continues to increase its number of cemeteries and funeral home assets in high-growth markets of the U.S. and Canada through acquisitions.

Earlier this year, Park Lawn completed the acquisition of Family Legacy and Harpeth Hills, which added four combination funeral home and cemetery properties. Also, it added seven standalone funeral homes and two standalone cemeteries. Park Lawn is targeting $100 million in EBITDA by 2022, of which future acquisitions are projected to contribute about $35 million.

The company impresses with its margin performance. Park Lawn has managed to expand its margins in the past three consecutive years. Streamlining of operations, margin accretive acquisitions, and improved business mix continues to support margin growth. Park Lawn's growing scale and cost efficiencies imply that it could continue to expand margins in the coming years.

Bottom line

The financial markets around the world have been extremely volatile over the past couple of months. Meanwhile, a high degree of uncertainty following COVID-19 outbreak indicates that the equity markets are likely to stay volatile in the coming months. Amid such a scenario, it is tough to pick the best small-cap stock, which has the potential to beat the broader markets and generate exceptional returns in the long run.

Park Lawn's strong competitive positioning, stable business, and growth initiatives make it a perfect small-cap investment choice. At a stock price of $19.11, Park Lawn stock is a steal.

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