TSX Market Rally: 2 Cheap Growth Stocks With Huge Upside Potential

Description

This time last year, I'd discussed the huge spike in global military spending that occurred in 2018. Fast forward a year later, and the same trends were dominant in 2019. This is one of the reasons I have my eye on two discounted growth stocks in late May.

According to a report released by the Stockholm International Peace Research Institute (SIPRI), the world's nations spent $1.9 trillion on their militaries in 2019. This represented an annual growth of 3.6% from global military spending in 2018. Nan Tian, a researcher at SIPRI, predicted that this may represent a "peak" in expenditure.

Governments may be forced to reassess military spending in the face of a global health crisis. However, we have already witnessed geopolitical tensions heighten due to the COVID-19 pandemic. The United States and China had achieved early progress in their trade negotiations, but this pandemic has spurred some harsh rhetoric. These two powers have emerged as the two largest spenders. Investors should not expect either to dramatically curb expenditures in the years to come.

Defence growth stock: CAE

CAE (TSX:CAE)(NYSE:CAE) is one of the top two growth stocks I'd recommended in this sector to start the year. The company provides training solutions for the civil aviation, defence and security, and healthcare markets worldwide. Shares of CAE have plunged 52% over the past three months as of close on May 18. The slump in aviation has weighed heavily on its bottom line, so defence will need to carry the load in the quarters to come.

The company is expected to release its fourth-quarter fiscal 2020 results on May 22. In the third quarter, CAE saw revenue climb 13% year over year to $923 million. It finished Q3 2020 with a $9.4 billion backlog. CAE's defence backlog looked strong at the end of the third quarter with roughly $3.8 billion of bids and proposals pending customer decisions.

Shares of CAE last possessed a favourable price-to-earnings (P/E) ratio of 14 and a price-to-book (P/B) value of 2.1. The company has achieved impressive earnings growth over the last five years.

Recent events may put a damper on its Q4 results, but opportunistic investors should look for a chance to buy the dips.

One more promising stock in this space

Heroux-Devtek is another growth stock involved in defence that investors should consider today. The company boasts exposure to the aviation and defence sectors. Its shares have dropped 55% over the past three months. The company is expected to release its fourth-quarter and full-year 2020 results on May 21.

In Q3 2020, Heroux-Devtek announced sales growth of 8.8% to $157 million. Adjusted EBITDA rose 7.3% to $24.6 million, and its funded backlog increased 9.1% to a record $839 million. Defence sales were up 39.3% in the first nine months of 2020 compared to the previous year.

This growth stock offers even more attractive value ahead of its next earnings release. Heroux-Devtek last had a P/E ratio of 9.7 and a P/B value of 0.7. It is in very promising value territory in comparison to its industry peers.

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