Here's My Top TSX Growth Stock to Buy in June

Description

While the COVID-19 crisis has been a bane to many **TSX** stocks, it has been a boon for one little-known growth stock. **Docebo** (TSX:DCBO) is that stock and it is up 54% year to date. Despite its stock price doubling since its October 2019 IPO, Docebo still remains off many investors radar. Here is why it is my top TSX growth stock pick for June 2020.

Docebo is a cloud-based software-as-a-service (SaaS) business that develops e-learning management systems for commercial clients. *Docebo* is, in fact, a Latin word which means to teach or to show. That is exactly what Docebo helps clients do.

To date, work force training has often involved watching a movie, reading a pamphlet, and then maybe answering a short multiple choice quiz. In contrast, Docebo's software uses the cloud and artificial intelligence to integrate learning, best practices, and training across an organization.

The learning system is flexible and adaptive to the organization. It integrates all training functions including course development, training tracking, employee competence, social learning, and data analytics all in one system.

This growth stock had a solid first quarter

So far Docebo has demonstrated some really strong growth. In its 2020 first quarter, it saw revenue increase 56% year over year to $13.5 million. It also saw subscription revenues increase 61% year over year. Now, 90% of overall revenues are actually subscription-based, recurring revenues. Docebo also broke a profit of $700,000, or $0.02/per share in the quarter compared to a $2.5 million net loss or ($0.11) per share in the prior year.

Overall, Docebo saw really strong customer traction, especially at the onset of the COVID-19 crisis. Its total customer count grew in the quarter by 21%, adding some notable customers like **Walmart** and Barilla.

Despite strong recent price momentum, Docebo is still an attractive growth stock for a few reasons.

Docebo wins from the work-from-home trend

First, its learning platform just became that much more important due to the COVID-19 crisis. With more and more people working from home, perhaps even permanently, a flexible training/ learning platform is becoming a necessity for corporations. Businesses are rapidly changing their operations models. They need learning systems that are accessible on the cloud anywhere, anytime, and for anyone.

Docebo has sticky revenues

Second, I like Docebo's sticky business model; 90% of its revenue are recurring, which means it has a consistent revenue stream. Despite the onset of COVID-19, Docebo had very little business or sales disruption.

With teams across North America and Europe, Docebo demonstrated its ability to operate in a remote capacity. Big customer wins like Walmart only further demonstrated that store-front and stay-at-home businesses alike need flexible cloud-based training solutions.

This stock is capitalized for growth

Third, Docebo is well capitalized for growth. It has $43 million in cash and no debt. Management emphasized that they are being conservative with expenses and choosing to ensure sustainable growth for the future.

Despite 51% revenue growth in 2019, management kept its free cash flow burn to less than $5 million. While this is still significant for a small company, it shows that management is seeking to manage capital wisely.

The Foolish takeaway

Overall, Docebo has some really interesting potential. Canada has only so many small-to-medium growth stocks to choose from. I think Docebo is a good place to put a speculative portion (i.e., don't bet the barn) of your portfolio

There are some risks to the stock, of course. It trades at a price to sales of 11.6 times, which is very pricey. The company still needs to prove itself and it has yet to even report a full year of earnings as a publicly-traded company.

Yet, so far, its performance has been promising. It has the right software services, which should continue to see long-term growth trends. Expect some volatility and own the stock for a long time.

I think you will look back and be happy you did.

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