2 TSX Small-Cap Stocks With Huge Upside Potential

Description

Investing in small-cap stocks can fetch you huge returns over the long term. However, small-cap stocks are riskier. So, for the investors who have an appetite for risk, here are my top two small-cap TSX stocks that have strong growth potential.

Park Lawn

Park Lawn (TSX:PLC) stock has jumped more than 28% since I recommended it first on May 13. Despite the strong rebound in Park Lawn stock, it is still down about 16% this year and has further room for growth in coming quarters.

Park Lawn stock is the casualty of the broader market selloff. However, investors should note that the COVID-19 outbreak or economic situations can barely impact its business. The company offers funeral and cremation services with strong competitive advantages that continue to drive its financials.

Park Lawn's top and bottom line have grown at a robust pace over the past several years, thanks to the sustained momentum in its underlying business. Its revenues and adjusted EBITDA have grown at a CAGR of over 60% in the last five years. Besides, its adjusted net earnings have increased at a CAGR of over 65% during the same period.

The ageing North American population, high barriers to entry, the company's presence in markets with high cremation rate, and an increase in the number of cemeteries and funeral home assets act as long-term tailwinds for Park Lawn.

Park Lawn's focus on streamlining costs, operational efficiencies, shift toward high-margin businesses, and strategic acquisitions should enhance its margins in the long run.

Park Lawn's ability to stay ahead of the competition, defend and expand its market share through acquisitions and organic growth, and operational efficiencies provide a platform for strong upside in its stock over the long term. Also, Park Lawn stock offers a decent dividend yield of 1.9%.

Transcontinental

Transcontinental (TSX:TCL.A) is another small-cap stock with tremendous upside potential. The stock has underperformed the broader markets so far this year and is down about 15%. The COVID-19 pandemic took a toll on its printing business, which accounts for about 50% of its revenues.

Transcontinental provides packaging products and printing services. The company's packaging products are used in the food and beverage industry and continue to witness steady demand. Transcontinental's packaging products business is likely to see strong order uptake, as retailers expand their e-commerce business.

Meanwhile, challenges in its printing business are likely to abate soon, and management projects the segment to continue to post positive cash flows. With the reopening of the economy, the demand for its printing business is likely to return to normal.

Investors should note that Transcontinental stock is highly undervalued and trades at a significant discount when compared to the industry average. Transcontinental stock trades at next 12-month EV-to-EBITDA ratio of 5.4, which is considerably lower than the industry average of 10.9. Meanwhile, it trades at the next 12-month price-to-cash flow ratio of 3.4, as compared to the industry average of 15.5.

Transcontinental's strong growth prospects and low valuation make it an attractive long-term investment option. Also, Transcontinental stock offers a solid dividend yield of 6.7%.

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1. TSX:PLC (Park Lawn Corporation)
2. TSX:TCL.A (Transcontinental Inc.)

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