This Mid-Cap TSX Stock Even Beat Shopify (TSX:SHOP) in Q2

### Description

The tech titan **Shopify** is undoubtedly the top gainer among Canadian giants, soaring almost 150% so far this year. Higher demand during the pandemic and improved growth prospects fueled its rally this year. However, few TSX stocks stood notably strong post-COVID-19 crash and even beat this e-commerce behemoth.



## A TSX stock that beat Shopify

Recreational vehicle maker **BRP** (TSX:DOO)(NASDAQ:DOOO) remarkably recovered in the second quarter after a deep plunge in March. BRP stock surged more than 150%, beating Shopify in the second quarter. The stock rose on the expectations of higher discretionary spending amid easing of lockdowns. However, will it continue to soar higher?

BRP is a fundamentally strong company and offers attractive growth prospects for the long term. But in my view, near-term challenges and an inflated valuation make it a risky bet at the moment.

## How BRP stands out

BRP has a diverse product portfolio that comprises all-terrain vehicles, snowmobiles, and watercraft. The renowned brands such as Sea-Doo watercraft, Can-Am vehicles, Alumacraft, Ski-Doo, and Lynx snowmobiles fall under its umbrella.

A $5 billion company, BRP operates in more than 120 countries. It derives 54% of its total revenues from the U.S., while 30% comes internationally and the rest from Canada.

Interestingly, it has a leading market share in watercraft and snowmobiles, giving it pricing power. BRP has also constantly beaten the North American Powersports retail growth in the last four years.

Its operational efficiency was very well translated into its financials in all these years. BRP managed to grow its net income by an average of 16% in the last four years.

## Near-term challenges that could weigh on this TSX stock

The stay-at-home orders amid the pandemic notably impacted BRP's business. In the first quarter, its net income fell more than 50% year over year.

Notably, BRP's second-quarter earnings are expected to take a more severe hit, which could weigh on its stock. The management expects 40% lower revenues in the second quarter and 10-20% lower revenues in the second half of the fiscal year 2021 compared to the same period in 2020.

Even if lockdowns gradually ease, uncertainties and fear might continue to dominate consumers and their discretionary spending. Thus, I think it might take a few quarters for BRP to stabilize its bottom line.

## BRP: Stretched valuation



I had recommended this stock, mainly on its discounted valuation, back in April, when it traded around $27. It has more than doubled since then. However, I don't see significant upside in BRP stock from its current levels in short to intermediate term after its recent rally.

Also, growing uncertainties after the recent acceleration in coronavirus cases and its premium valuation could put downward pressure on the stock.

BRP stock is currently trading at a forward price-to-earnings multiple of 37 times its 2020 earnings estimates. The current valuation indicates a significant premium against its average historical valuation.

BRP remains a fundamentally sound business, but I think near-term challenges will notably affect it at least for the next couple of quarters. Importantly, uncertainties driven by the pandemic and lower earnings will likely dominate its market performance in the second half of the year.

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