2 Hot COVID-19 Stocks to Watch Right Now

Description

Two very interesting small-cap TSX healthcare stocks with potentially divergent short-term price returns are on my screen this month. One saw a massive sales boost on COVID-19 critical equipment, and its share price has soared over 70% so far this year. The other saw sales volume decline during the pandemic, and its share price crumbled, but management has seen a strong sales rebound going into the third quarter of 2020.

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Many readers could guess the first name correctly. **Viemed Healthcare** (TSX:VMD)(NASDAQ:VMD) has been covered many times on this platform. It has been one very hot healthcare small-cap stock during the pandemic.

However, only a few could identify the second stock. But let's discuss the hot name on traders' radar first.

Viemed Healthcare stock

Viemed Healthcare is one of the best-placed healthcare growth stocks to benefit from the COVID-19 pandemic. Its share price has soared 267% from its lows in late March this year. But momentum is weakening now.

The company is a provider of in-home medical equipment and post-acute respiratory healthcare services in the United States. Its core business involves renting out care equipment. It views itself as "the largest independent non-invasive ventilation therapy provider in the country." The business has directly benefited from a pandemic attack.

Sales orders for respiratory care equipment soared to record levels, as the novel coronavirus pandemic hit the United States. Second-quarter 2020 revenue grew by 111% year over year and 80% sequentially to $42.9 million. This was a record surge from US$23.8 million in quarterly sales during the first quarter. Net earnings for the bumper quarter rose to a record US$19.4 million, up from just $1.3 million during the same period last year.

However, the surge in revenue included up to US$22.2 million in COVID-19-related deals. The company has since guided for only $6.8-$9.8 million in similar pandemic-related sales for Q3. Total revenue is therefore estimated to decline 23% sequentially to between $31 million and US$35 million this quarter.

Is Viemed stock a buy right now?

Pandemic-related sales gains are potentially non-recurring. The company's operations could soon return to a normalized growth trend over the next few quarters, as humanity prevails against the coronavirus. Perhaps this should explain the plateaued price graph on Viemed stock since July this year.

The return to a lower revenue run rate seems concerning for short-term investors. The share price could correct to pre-COVID-19 levels as pandemic trades cool off.

However, I find management's latest earnings guidance encouraging from a long-term investor perspective.

Adjusting for the COVID-19-related sales revenue guidance for Q3 implies a 21% year-over-year revenue growth in the company's core business. The company still has a large addressable market, and sustained double-digit growth rates in the core business will sustain strong share price growth momentum over the long term.

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Further, VMD had little analyst coverage. A pandemic brought the healthcare growth stock into the limelight. Now that it has been "re-discovered" by retail investors, trading volumes and valuation multiples are likely to remain higher than before.

Although VMD remains a good long-term hold after the latest surge, shares look a bit expensive now, and a short-term downward correction could be around the corner. Shares could trade inverse to any good news on coronavirus treatment breakthroughs. Vaccine announcements and signs of pandemic containment could dampen retail trader enthusiasm on the stock.

I wouldn't chase this hot COVID-19 stock, I'd perhaps wait for the dips.

Akumin's stock is in strong recovery

Akumin's (TSX:AKU) patient diagnostics and imaging business has been negatively impacted by the ongoing pandemic. Its share price is down 38% year to date at the time of writing.

Second-quarter business volumes declined by 28% sequentially, but revenue was slightly weaker, while the loss per share doubled sequentially. Management effected cost-cutting measures such that adjusted EBITDA was actually 12% better than that achieved during the same quarter last year.

Management revealed during Wednesday's earnings that business volumes have recovered to within 10-15% of pre-pandemic levels. The company also received government support to boost liquidity.

Shares in Akumin have since rallied during the week, and any positive news on vaccines and lower rates of COVID-19 infections in the future could boost the company's shares.

I'd buy into the recovery.

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