Forget Snowflake: This TSX Stock Could Have 600% Returns

Description

It's hard to look at the rash of tech IPOs to hit North American markets and not think that they're coming at the wrong time. Just look at **Snowflake** (NYSE:SNOW). Its public listing this week has seen intense interest, with the stock doubling on its first day of trading. But its Wednesday debut was not sustainable, and Friday saw the stock down 10.9% for the week.

The cloud software IPO was already priced higher than the normal range. That makes its new valuation unpalatable. However, one thing is going for tech stock right now: the pandemic is not over yet. While this is undoubtedly bad news, it nonetheless strengthens the digitalization growth thesis — or at least props it up for a while longer.

Tech stock IPOs are coming thick and fast

However, growth investors should start to look beyond this trend and envisage a post-pandemic world. While momentum investing is very much about the present moment, the growth trend could be going out of fashion. Instead, a value investing model could be on the ascendant, as societies begin to deal with the prospect of a messy international recession.

One model that could emerge as more likely than a V- or even W-shaped recession is a complex K-shaped recession. This model predicts an uneven recovery that sees some sectors recovering while others languish. At risk of running out of letters of the alphabet, investors should keep these models in mind while investing. While some sectors could continue to deteriorate, certain trends in tech looks like they could outrun the pandemic.

While cloud based data management is certainly a compelling component of the software-as-a-service (SaaS) trend, Snowflake's upside could be limited, though. It's also far too rich for the general investor's palette. As a speculative play, Snowflake is simply too expensive at its current valuation. Having pulled back 10% this week already, a further correction could be forthcoming.

A better stock for long-term upside

Growth investors may instead consider **Xebec Adsorption** (TSXV:XBC). This name is looking at annual earnings growth of 218% and could reward investors with 600% total returns in the next three years. What looks on the face of it like a fairly niche stock could actually pay off in the next few years. A machinery play in the gas space, Xebec Adsorption isn't cheap, but it does undercut some other growth stocks.

This name is also tailor-made for energy investors looking for ways to diversify while lowering exposure to producers in the hydrocarbon space. As I wrote a couple of weeks ago, "Instead of buying energy stocks themselves, Xebec investors get a more diversified play in the space with international diversification backing up that growth thesis." Investors balking at tech stock valuations might want to get on board.

The growth potential for this name is off the charts. Investors who had been eyeing overpriced tech names in an increasingly crowded space may want to reconsider the potential for energy stocks. And not just energy producers, but producer-adjacent names such as Xebec Adsorption.

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1. Investing
2. Tech Stocks

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