



This Growth Stock Could Be Your Ticket to Riches

Description

You've probably never heard of this [growth stock](#). **Calian Group** ([TSX:CGY](#)) is headquartered in Ottawa. It currently trades at \$55 per share with a market cap of under \$538 million. The company began transforming in April 2016 from a stable single-digit growth company to be more growth oriented.

Calian's results speak for themselves. It has reported profitability for 19 consecutive years — through economic boom and bust. Since April 2016, the **TSX** stock has delivered total returns of 29% per year. It also offers a dividend that yields 2% at the recent stock price.

Since 2019, it has rallied with only two selloffs. It corrected +25% in the March market crash this year and then ran up to set an all-time high in October. From there, the stock just corrected more than 20%, which could be a good entry point.

Is the stock really on sale? Analysts certainly think so. According to the general consensus, the stock is cheap. Eight analysts have an average 12-month price target of \$73.19 on Calian stock, which represents near-term upside potential of approximately 33%.

What does Calian do?

Calian provides professional services for a diverse set of clients (private sector, government, and defence). It has four operating segments: Advanced Technologies (35% of revenue), Health (38%), Learning (13%), and Information Technology (13%).

The company grows organically and through acquisitions. It made its first global acquisition in fiscal 2019 and currently has [nine subsidiaries](#). Its latest acquisition is Tallysman, which offers a range of Global Navigation Satellite System, Iridium, and Globalstar antennas.

Recent results and 2021 outlook

Last week, Calian reported its fiscal Q4 results. The pandemic had minimal impact on its business. For

the year, its revenue rose 26% to \$432 million against fiscal 2019.

Organic growth was strong at 21%, driven by its Health and Advanced Technologies segments. Adjusted EBITDA was \$36.8 million, up 36%. Adjusted net profit climbed 24% to \$23.5 million.

Notably, adjusted earnings per share (EPS) only experienced marginal growth of 0.5% to \$2.41 per share due to equity dilution. In fiscal 2020, Calian increased its outstanding shares by about 23% to help fund acquisitions.

It made four acquisitions this year — three of which were in new market verticals. These should serve to expand Calian's customer base to drive growth.

From fiscal 2017-2019, Calian maintained return on equity of +17%. That has slipped to 12.9% in fiscal 2020. Similarly, its return on assets has fallen meaningfully from 10.4% in fiscal 2017 to 6.2% in fiscal 2020.

The company needs to show it can turn these important metrics around. Management gave fiscal 2021 guidance, which, based on the midpoints of the ranges, imply 8.8% revenue growth, 9.4% adjusted EBITDA growth, and 13.8% adjusted net profit growth. It looks like it'd be a year to digest its recent acquisitions.

Balance sheet

As Calian has funded acquisitions largely with equity, its balance sheet remains strong. At the end of fiscal 2020, Calian had cash and cash equivalents of \$24.2 million, up 41% year over year. Its debt to equity is 9.8%, down from 11.3% a year ago. Its current ratio was 2.2 times, up from 1.9 times a year ago.

The Foolish takeaway

Calian is growing its revenues, adjusted EBITDA, and adjusted earnings meaningfully through organic growth and M&A. However, it'd be more reassuring to see consistent EPS growth as well.

The +20% correction in the stock could be a good opportunity to buy a starter position. If the company executes well and the stock starts ticking upward, interested investors can buy more shares then.

Calian also provides a safe 2% dividend yield, which matches the best five-year GIC rate. Based on Calian's history of successful execution, it's likely that the stock will trade much higher from current levels five years from now. So, investors can view the stock as a volatile GIC that guarantees a 2% yield but has higher returns potential.

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