



Young Investors: Buy These 3 Small-Cap Stocks With Huge Upside Potential

Description

Investing in small-cap companies can be highly rewarding as well as risky. These stocks are usually young companies with high growth potential but could be highly volatile. So, young investors with higher risk-taking abilities and a longer investment horizon should invest in these stocks to earn superior returns. Meanwhile, here are the three small-cap stocks with tremendous growth potential.

Goodfood Market

Social-distancing and work-from-home restrictions amid the pandemic benefited the online grocery and meal kit delivery company, **Goodfood Market** ([TSX:FOOD](#)). It reported an impressive 85% growth in its top line in the [August-ending quarter](#), driven by a higher customer base and increased average order values due to expanded product offering and strong order rates.

Apart from its top-line growth, improved operating efficiency, automation, increased density in the delivery zones, and lower incentives and credits improved its profitability. The company reported net profits of \$1.6 million compared to a \$5.9 million net loss in the previous year's quarter.

Meanwhile, the structural shift towards online shopping and its expanded customer base have created a long-term growth opportunity for Goodfood Market. The company is also investing in increasing its production capacity, automation, broadening its product offerings, and expanding to different markets to increase its market share.

Given its robust last-mile delivery capabilities, large addressable market, and expanding market share, [I expect Goodfood Market to deliver superior returns over the next three years.](#)

goeasy

Second on my list is **goeasy** ([TSX:GSY](#)), which provides alternative financial services to subprime borrowers. It has created significant wealth for its shareholders in the last two decades, with its stock price rising by over 5,250% at a CAGR of 22%. Its robust revenue and earnings growth have

supported the company's stock price growth.

Amid the pandemic, investors were cautious of goeasy due to its significant exposure to non-prime borrowers. However, the government's quick response to support Canadians through the Canadian Emergency Response Benefit (CERB) lowered delinquencies, thus strengthening goeasy's underlying business.

This year, the company's stock is up 24.4%, driven by an improved level of loan originations and reduced credit losses. In the first nine months, the company's top line has increased by 8%, while its diluted EPS grew by 52%. The reopening of the economy, relaxation of stay-at-home orders, and encouraging news on vaccine development have increased the consumer demand and loan origination volume.

Meanwhile, given its wide range of product offerings, new delivery channels, and diversified revenue streams, goeasy is well positioned to capitalize on underserved markets, which could drive its top-line and bottom-line growth in the coming years. So, I am bullish on goeasy.

Dye & Durham

Dye & Durham ([TSX:DND](#)) provides cloud-based software solutions, which would improve legal and business professionals' efficiency. It focuses on developing innovative products, expanding its customer base, and acquisitions to boost its financials.

In the last five years, the company's top line and adjusted EBITDA have grown at a CAGR of 65.2% and 107%, respectively. In the first quarter of fiscal 2021, which ended in September, the company reported top-line growth of 29%, while its adjusted EBITDA rose 41%, driven by revenue growth and margin expansion.

Meanwhile, in September, Dye & Durham acquired R-Squared Bidco, which provides cloud-based real estate due-diligence in the United Kingdom, for \$54.5 million. It has also signed an agreement to acquire SAI Global's Property Division, which would facilitate real estate transactions in Australia. The acquisition would mark the entry of Dye & Durham in Australia. Further, the company has also raised over \$200 million through new equity offerings, which could support its growth initiatives.

The company's management has estimated that it has an addressable market of \$1.1 billion and \$900 million in Canada and the United Kingdom, respectively. Given its strong track record and growing addressable market, I believe Dye & Durham would be an excellent buy for long-term investors.

CATEGORY

1. Bank Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:DND (Dye & Durham Limited)
2. TSX:FOOD (Goodfood Market)
3. TSX:GSY (goeasy Ltd.)

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