Forget Bitcoin and Gold: Buy This Small-Cap Stock for Outsized Gains

Description

The second strain of COVID-19 found in the U.K. has created a sense of panic all over the world. Several countries have temporarily shut their borders for flights originating from the United Kingdom. There are also concerns that another round of lockdowns might be imposed if the new strain results in an exponential rise in cases.

Investors might be wary of the uncertainties, making asset classes such as gold and Bitcoin attractive right now. However, there is another sector that continues to remain attractive, which is the technology space.

Calian Group (TSX:CGY) is one such Ottawa-based company with a market capitalization of $624.15 million and provides consultancy services related to advanced technological solutions, and other essential IT/cybersecurity, learning, and health solutions. The company has been transforming itself since April 2016 and became more growth oriented. Even amid the pandemic, Calian Group's business has kept on flourishing, which makes it worth looking at.

Strong financials have driven Calian stock higher

Calian Group experienced a good quarter. The company has adapted itself quickly to the changing environment and continued to deliver essential services. Its fiscal Q4 of 2020 was Calian's 76th consecutive profitable quarter for the company. Revenues for the quarter saw a 35% surge from $90.9 million in Q4 of 2019 to $123 million. Annual revenue also rose by 26% to $432 million from $343 million of the prior year.

EBITDA for the quarter increased by 14% compared to Q4 of 2019 and by 36% on an annual basis. Adjusted net profit for the year also rose by 24%. It was the ninth consecutive quarter for which the company had recorded its highest-ever revenue, EBITDA, and net income. The revenue success was on account of the increased customer base as a result of the four acquisitions it made during this quarter.

Thirst for rapid growth

Calian Group is actively engaged in expanding its operations by going down the acquisition route. Since April 2016, the company's stock has delivered an average total return of 29% annually. The management is targeting long-term internal growth at a rate of 10% every year excluding acquisitions.

In the last quarter, it made four acquisitions, of which three were in new market verticals. Another smart move was the acquisition of EMSEC Solutions Inc., a boutique firm that specializes in radio frequency (RF) emission security and technical surveillance countermeasures.

Just after the end of Q4, Calian broadened its operations in the European region by acquiring a U.K.-based training company, Cadence Consultancy Limited, aiming to expand its range of learning services. The current solid liquidity position as per the balance sheet states the company won't be in dire need of capital to fund its next acquisitions.

Dividend payout

One of the chief reasons why Calian Group can be an eye-catching investment to investors is because of its consistency in paying relatively hefty dividends. It has a three-year median payout of 53%, while retaining the remaining 47% for reinvestment in its business.

Moreover, the company is firm on sharing its gains with its investors, and this can be confirmed by looking at the company's trend of sharing dividends from about the last 10 years. This quarter also the company declared a quarterly dividend of $0.28 per share. But some analysts suggest over the next three years payout may drop to 34%.

The stock is relatively cheap and has a stable growth outlook with a forward P/E of only 17 times. It is trading at $64 per share with a 12-month average price target of $73, indicating an upward potential of 16% after accounting for its dividend yield.

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