3 Small-Cap Canadian Stocks That Can Deliver Superior Returns in 2021

Description

Small-cap stocks tend to outperform the broader equity markets during the bull run. The multiple rollouts of vaccines and historically low interest rate have created a perfect opportunity for small-cap stocks to thrive. Let's look at three small-cap Canadian stocks that could deliver superior returns this year.

Real Matters

Real Matters ([TSX:REAL](#)), which services mortgage lenders and insurance industries through its proprietary platforms and network capabilities, is my first pick. The low-interest-rate environment has created a long-term growth potential for the stock. In [fiscal 2020](#), the company's net revenue grew by 58.8%, while its adjusted EBITDA rose 149.3%. Its market share in the U.S. appraisal segment increased from 10.6% to 11.7%, while its U.S. title segment grew from 1% to 2.4%.

Meanwhile, with a weak economic outlook, central banks won't raise interest rates in a hurry, which could benefit Real Matters. Further, the company's retention rate stands at 95%, which is encouraging. The company's management has also set an optimistic outlook for the next five years, with its market share expected to grow in both appraisal and title segments. The management has also projected that its adjusted EBITDA would increase.

Meanwhile, amid the recent pullback in its stock price due to lower-than-expected fourth-quarter performance, Real Matters is trading at over 41% discount from its 52-week high, providing an excellent buying opportunity. Its valuation also looks attractive at a forward price-to-earnings multiple of 30.1 and a forward price-to-sales multiple of 3.3.

Goodfood Market

Last year, **Goodfood Market** ([TSX:FOOD](#)), an online grocery and meal kit delivery company, had returned over 287%. Amid the pandemic-infused lockdown, the demand for the company's services rose, driving its financials and stock price.

In its fiscal 2020 that ended on August 31, its top line grew by 85%, driven by its expanding customer base, increased order values, and higher-order rate. Meanwhile, its net losses also contracted from $20.9 million in 2019 to $4.1 million. Higher sales, an increase in gross margin, and lower SG&A expenses lowered the company's losses.

Meanwhile, the demand for Goodfood Market could sustain in the post-pandemic world due to the structural shift towards online shopping, its growing customer base, and expansion of its product offerings. In the first quarter of fiscal 2021, the company added 26,000 new active subscribers to increase its active customer base to 306,000.

The company is also investing in increasing its production capacity, broaden its product offerings, and expand its distribution to drive its sales in the coming years.

goeasy

Driven by strong fundamental growth, **goeasy** ([TSX:GSY](#)), which provides leasing and lending services to sub-prime customers, has returned over 412% in the last five years at a CAGR of 38.7%. Despite the pandemic, the company's top line grew by 8% in the first three quarters of this year, while its adjusted EPS increased by 43%.

With the rollout of multiple vaccines, the economic activities could improve this year, driving credit growth, thus increasing the demand for goeasy's products and services. Its geographical expansion and new product offerings could also contribute to its earnings growth. So, [I expect the company to deliver superior returns this year](#).

The company has supported its shareholders by consistently increasing its dividends for six consecutive years. It pays quarterly dividends of $0.45 per share, with its dividend yield currently standing at 1.9%.

CATEGORY

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2. TSX:GSY (goeasy Ltd.)
3. TSX:REAL (Real Matters Inc.)

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