This Growth Stock Crashed 50%: Time to Buy?

Description

Growth stock **Xebec Adsorption** (TSX:XBC) had a super run, essentially quadrupling shareholders' money from $2.50 to $10 per share, last year. A $1,000 investment at the start of 2020 turned into $4,000 at the end of the year.

The renewable gas stock went on to make new heights in early 2021 to as high as $11 per share. But it soon lost steam. After an incredible run up last year, it's natural for some profit taking to occur.

However, its Friday price action of falling more than 30% suggests there's something more than simply profit taking. From Xebec's all-time high of about $11, it has fallen about 50%!

As of Friday's market close price, Xebec's market cap was about $830 million, a small-cap stock. It's actually not too uncommon for small-cap stocks to experience these kinds of crashes.

Because of their small size, small-cap stocks can easily rise or fall 30-50% in reaction to good or bad news. During the pandemic market crash, the growth stock also fell more than 50% from a high to a low.

There was legitimate news on Friday that caused the selloff. Ahead of releasing its fourth-quarter and full-year 2020 results on March 25, it disclosed some bad news. The company gave mental preparation for the investing community by revealing that it won't be able to achieve its previous 2020 revenue guidance of $70-80 million.

Management estimates the actual 2020 revenue to be about $57 million instead. This would be a 16% growth rate versus 2019's actual revenue (compared to a 53% growth rate based on the midpoint of the previous guidance range).

Is the growth stock a buy today?

As of writing, the growth stock remains in a long-term upward trend. However, the stock could experience further downward pressure in the near term. There should be some support at about $5 per share and next at $4. That said, its upward trend would still be intact as long as it's able to defend the $3 level.

On Friday, Xebec stock traded at $5.46 per share at the market close. It would take another 45% decline from that level to reach $3. It's going to take a lot of missteps for the stock to fall to $3. So, at this point, I don't think that's a likely scenario.

There is a long-term clean energy trend. Xebec provides clean energy solutions for the distributed generation of renewable and low-carbon gases. It has been positioning itself as a leader by making strategic acquisitions.

Last year, it acquired Netherland-based HyGear, which was a global leader in decentralized and onsite hydrogen generation solutions. HyGear ranked first place in having the highest number of installations across the world.

In February, Xebec completed the acquisition for Inmantec, a leading manufacturer of on-site nitrogen and oxygen generators.

So far, the company hasn't been generating consistent returns on invested capital. Since 2014, it has been a hit or miss. Going forward, whether the stock can turn around depends on the company's execution of its growth plan. Therefore, it remains a relatively speculative investment for growth.

If anything, it doesn't look like it's time to give up on the stock. Insider ownership of close to 15% is meaningful and reassuring. And the clean energy trend is with Xebec. Countries around the world, including the EU, Canada, South Korea, Spain, Japan, and Germany are aiming for net-zero emissions by 2050.

The Foolish takeaway

Over the next few months could be a good time to ease into the speculative growth stock. Investors need to keep the allocation in mind, though. For example, ensuring it doesn't take up more than 1% of their investment portfolios. If the company improves its ability to execute, you can reward it with greater investment, perhaps, up to 2% of one's portfolio.

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kayng