



This Growth Stock Swiftly Rebounded 30%: Still a Buy?

Description

What a roller-coaster ride it has been for this growth stock! Selloffs of 30-50% are not big news for small caps. However, this one fell more than 60% from the top. And it's super scary to hold on to if you bought at the all-time high.

It goes to show that it's all the more important to aim to buy small-cap stocks opportunistically when the market provides buying opportunities.

Simultaneously, small caps can experience big upward movements on good news, because positive news has bigger impacts on smaller companies than on bigger ones.

Why the growth stock had a correction

Xebec Adsorption ([TSX:XBC](#)) experienced a major decline recently from \$11 to \$4 per share. Partly, it's because it had a super run from the 2020 pandemic market crash low of \$2 to \$11 in January 2021.

The investing community got overly excited about the stock, which ran ahead of itself, climbing to \$11, after it announced the \$156-million "transformative acquisition of HyGear."

HyGear is a Dutch-based leader in on-site hydrogen generation solutions for industrial and fuel cell electric vehicle refueling applications. Its small-scale steam methane reforming technology was expected to complement Xebec's renewable natural gas solutions.

A rally after the correction

Often, after a big correction, a rally will follow for small caps whose businesses are intact. The growth stock hit the support level of about \$4 soon after I wrote [an article](#) on it. Since then, the stock has bounced about 30%.

Today alone, Xebec has appreciated about 8% at writing. This could be the result of its February

acquisition of Inmantec, a leading manufacturer of on-site nitrogen and oxygen generators, which has a service network in Europe, the Middle East, and Africa.

There has been a rising demand for medical oxygen generation since the COVID-19 pandemic. As a result, in 2020, Inmatec delivered 224 oxygen generators, up from 118 in 2019, resulting in revenue more than tripling. So far in 2021, Xebec has delivered or received orders for 133 on-site oxygen generators.

Notably, other than severe COVID-19 patients, on-site oxygen generators also have other applications. For example, they could be used for patients with asthma, chronic obstructive pulmonary disease, and cystic fibrosis.

Investor takeaway

Growth stocks, especially small-cap ones, tend to be volatile and make large strides up or down in a short time with no warning. That's why investors typically see small-cap stocks as high-risk investments and keep their positions in them small to diversify risk.

For reference, it would be a pretty big holding if a fund held more than 3% of assets in Xebec. Therefore, investors should size their allocations accordingly.

Right now, Xebec has a resistance in the \$5.50-6 range. So, the stock is not out of the woods yet. Will it push past the resistance head on or revisit/break the \$4 support level?

As I stated in a previous article, "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." Therefore, the macro trend and management's execution of its growth strategy will be key to the stock's long-term performance.

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