Small-Cap Stocks Thrashed Large Caps in 2021: 3 TSX Stocks to Buy Today

Description

It's been more than a year since the pandemic-led market crash. The subsequent recovery was indeed remarkable one given the magnitude of the crisis and the economic damage. Interestingly, small-cap **TSX** stocks have substantially outperformed their larger counterparts in this rally.

The **TSX Composite Index** surged almost 35% in the last 12 months while the small-caps at large soared more than 70%! Some smaller TSX stocks still offer growth potential for the long-term investors, despite their stupendous rally. Here are the top three of them.

Equitable Group

Investors usually overlook smaller companies as they are perceived to be riskier. However, their reward potential is sometimes equally higher given the greater amount of risk. Consider **Equitable Group** (TSX:EQB). The stock is up almost 115% in the last 12 months, notably higher than the Big Six Canadian banks' gains of about 40% in the same period.

Equitable Group is a $2 billion company that operates Equitable Bank. It caters to the niche customer base in Canada that big banks don't usually serve. There will likely be a notable demand surge from this customer base post-pandemic. Equitable Group has seen steady revenues and earnings growth in the last five years.

Notably, EQB stock is not overvalued after its recent rally. Its relatively discounted valuation indicates a strong upside potential. If you are an aggressive investor, consider Equitable Group for handsome returns amid the impending economic recovery.

Whitecap Resources

The spread among smaller stocks' performance in the Canadian energy space compared to large-caps is even more well-defined. **Whitecap Resources** (TSX:WCP), a $3 billion oil and gas company, has absolutely thrashed large-cap peers. The stock is up almost 300% in the last 12 months, while peer energy companies like **Suncor Energy** and **Imperial Oil** have risen just 15% and 65%, respectively.

Whitecap Resources reported net profits of $332 million in the fourth quarter of 2020 against $13 million in Q3 2020. Improving demand coupled with strong production growth led to such a sharp jump. Apart from its better quarterly profit numbers, its improving operating margin is an encouraging signal for long-term investors.

Whitecap pays monthly dividends as well that yield around 3.2%. There is a large scope of dividend increase considering its relatively lower payout ratio. Investors can expect a continued strong performance from WCP due to its higher production in 2021 and the energy sector's improved outlook.

MTY Food Group

MTY Food Group (TSX:MTY) operates and franchises quick-service restaurants. Restaurant companies have severely impacted amid the pandemic and the closures. However, the worst seems to be over for these companies. MTY stock has surged almost 120% in the last 12 months, notably higher than peer **Restaurant Brands International**'s meagre gains of 24%.

MTY's network operates at almost 7,000 locations, of which 54% are in the U.S., while the rest are in Canada and spread internationally. The pandemic's second wave and continued closures impacted MTY's operations in fiscal Q2 2021.

Interestingly, its strong cash position, re-opening efforts, and diversified geographical presence suggest a robust recovery in the post-pandemic world.

Bottom line

Small-cap stocks generally outperform large caps during the bull markets and under-perform in bear markets. Investors seek higher return potential from them for bearing the extra risk. Adding them to your portfolio in optimum size will certainly play well in terms of diversification as well as for the higher return potential.

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