UNDERVALUED: 3 Top Canadian Growth Stocks to Buy in April 2021

Description

Tech stocks have been the backbone of the recent market rally. TSX stocks at large are up almost 30%, while the tech sector has soared nearly 45% in the last 12 months. Interestingly, some Canadian growth stocks are still trading below their fair values and suggest handsome potential upside.

Shopify

Calling **Shopify** (TSX:SHOP)(NYSE:SHOP) stock undervalued is quite strange, right? The tech titan certainly looks overvalued from the traditional valuation metrics. It is currently trading at a price-to-sales valuation of 80 times and price-to-earnings of 285 times.

However, Shopify has consistently displayed above-average growth since 2015. Investors should note that Shopify is a kind of stock where traditional valuation measures might not be appropriate.

If we compare Shopify's value against the total addressable market size, the stock is still undervalued and suggests room for growth. Its addressable market of small- and medium-scale businesses is at around US$153 billion, of which Shopify earns around $3 billion in revenues. Notably, the market size excludes big-sized merchants.

Shopify will release its Q1 2021 earnings on April 28. Its superior earnings growth will likely continue driven by e-commerce activities amid the continued restrictions.

SHOP stock is still trading 25% lower than its all-time highs of $1,900 in February 2021. It could race back to those levels this year on strong quarterly performance and the lingering pandemic.

Cargojet

Canada's air cargo operator stock **Cargojet** (TSX:CJT) is also trading 25% lower than its last year's peaks. In 2020, e-commerce activities zoomed due to closures, which significantly drove Cargojet's top line.

Cargojet reported revenues of $668 million last year, representing a growth of 38% year over year. Investors should note that continued restrictions amid the pandemic could boost its revenues and should bring back the momentum in CJT stock.

Cargojet has been a long-time outperformer. In the last decade, it returned almost 2,700%, notably beating the **TSX Composite Index**.

The company operates between 16 major airports in the country and assures next-day delivery for over 90% of the Canadian population. Its operational efficiency, scale, and cost effectiveness largely led to the outperformance.

Cargojet will release its first-quarter earnings next week. Strong top-line growth will likely drive its stock higher.

Air Canada

Air Canada (TSX:AC) stock is trading subdued for the last few weeks, despite a bigger-than-expected bailout package. The re-opening uncertainties and the recent acceleration of the COVID-19 cases most likely weighed on its recovery. Apart from that, an equity dilution for government aid could also have discouraged investors. Notably, Q1 earnings next month will be a crucial driver for AC stock.

Analysts expect Air Canada's next year's revenues around $15 billion. Such a sharp surge is quite likely given the pent-up demand post-pandemic. Considering the historical average EBITDA margin of 15%, Air Canada's 2022 EBITDA will likely be close to $2.25 billion, giving the stock an EV-to-EBITDA multiple of 6.5. It indicates a discounted valuation compared to its historical and industry average as well.

Investors should note that AC stock looks expensive from the price-to-book value per share parametre. Also, if air travel demand recovery takes longer than expected, the flag carrier's top-line growth could stay muted, ultimately weighing on the stock.

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TICKERS GLOBAL

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2. TSX:AC (Air Canada)

3. TSX:CJT (Cargojet Inc.)
4. TSX:SHOP (Shopify Inc.)

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