2 Small-Cap Stocks That Could Outperform in 2021 and Beyond

Description

Since most investors ignore small-cap stocks, you can more easily find hidden gems among the group. Here are two small-cap tech stocks that have delivered extraordinary long-term returns. They appear to be trading at decent valuations today and are, therefore, worth a closer look.

A small-cap stock that could be a hidden gem

Sylogist (TSX:SYZ) is such a small and thinly traded stock that you might have missed it. Its market cap is just over $337 million, and its average volume is about 74,300. Moreover, it just graduated from the TSX Venture Exchange to the **TSX** in late March this year.

Many investors ignore small-cap stocks, which could be very lucrative, as was the case with Sylogist. The TSX stock generated incredible total returns of roughly 24% per year over the past 10 years while paying an increasing dividend. Its 10-year dividend-growth rate is 20.9%. Its more recent three-year dividend-growth rate is 16.6%.

The company provides Software as a Service (SaaS) Enterprise Resource Planning solutions to more than 1,000 public service organizations around the world. Its clients include K-12 school districts/boards, public sector, nonprofit organizations, international non-governmental organizations, manufacturing, and warehousing/distribution.

SYZ stock's long-term chart suggests it is sensitive to economic cycles. Particularly, last year, during the pandemic, its operating income fell almost 80%. That was a great time to scoop up the stock at a low. The stock has already doubled from that level! Importantly, its 2020 adjusted EBITDA increased 16% year over year to $20.4 million, which suggests strong normalized earnings power.

Although Sylogist's 2020 return on equity (ROE) dropped to approximately 3.5%, its five-year ROE remains high at about 17.1%. The company enjoys an industry-leading EBITDA margin of 50%, but its five-year revenue-growth rate of 2% was below average. The new CEO, Bill Wood, who came onboard in November 2020, could help spur top-line growth. Management sees tonnes of M&Aopportunities across the industries it serves.

As the world normalizes from the pandemic, analysts expect more upside from the stock. Over the next 12 months, upside of roughly 25% is possible. Sylogist also offers an attractive initial yield of close to 3.6%.

Another tech stock that's a small cap

Sangoma Technologies (TSXV:STC) is another small-cap stock that could do well in 2021 and beyond. It provides voice and unified communications solutions to its customers in 150 countries. It's generated revenues of $141 million in the last 12 months.

The acquisition of Starblue allowed Sangoma to be able to provide cloud solutions, on-premise deployments, or a hybrid for its clients. The deal was worth US$437 million (about 24% cash and 76% in stock) and will start contributing to the company results in the next reported quarter, as the transaction was completed at the end of March. The acquisition boosts Sangoma's annual revenue to close to $250 million.

The company's expanding EBITDA margin is a good sign. Its margin in the last 12 months was 14.69% versus 11.06% a year ago. The shift to cloud solutions could lead to further margin expansion.

At writing, the stock trades at $3.31 per share with a market cap of just under $440 million. Analysts expect a whopping upside potential of 68% over the next 12 months.

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kayng