3 “Expensive” Stocks That Could Give You Crazy Returns

Description

Experienced investors and those committed to following strict investment guidelines often use valuations to determine whether a stock would make a good buy at that time. Examples of these metrics include price to earnings (P/E), price to sales (P/S), and price to book (P/B). Unfortunately, many investors use these metrics improperly. In addition, these metrics are largely useless when assessing companies in the high-growth phase of its business. For example, it’s impossible to evaluate a company on its P/E if it has no earnings.

Focusing on P/S and P/B, I will discuss three stocks that look very expensive according to popular valuation metrics. Investing in these companies today could seem like an excellent financial decision years down the road, regardless of what valuation metrics indicate.

A top stock in 2020

Last year, **Docebo** (TSX:DCBO)(NASDAQ:DCBO) was one of the brightest stars on the **TSX**. The company’s main offering is a cloud-based, AI-powered, eLearning platform for enterprises. Soon after its IPO in October 2019, the COVID-19 pandemic caused its stock to crash about 35%. However, investors quickly realized that Docebo could be essential to the success of many businesses. As a result, Docebo stock soared more than 650%. Unfortunately, this year has been rough. The company has lost 16% of its value, as of this writing.

Even at these depressed levels, Docebo stock trades at a premium according to its valuation multiples. Value investors usually hope for P/S ratios under 2, Docebo’s P/S is currently about 31. In addition, it has a P/B over 11, whereas investors usually look for ratios under one. Despite these indications that Docebo is overvalued, the stock could see a lot of growth moving forward. Developments like its multi-year partnership with **Amazon** will do a lot in pushing its price higher. Docebo has all of the makings to be a top stock for years.

This stock was a market favourite last year

Lightspeed (TSX:LSPD)(NYSE:LSPD) is another company that held its IPO in 2019. Like Docebo, Lightspeed saw its stock plummet at the start of the pandemic. Investors were worried about the company's exposure to small- and medium-sized businesses that were disproportionately affected by the COVID lockdowns. However, Lightspeed's founder and CEO, Dax DaSilva, managed to make all of the right moves, which ended up allowing many of its businesses to thrive during the pandemic.

As a result of the quick thinking by Lightspeed's management team, the company saw its stock gain more than 600% since hitting its lowest point after the March crash. Today, Lightspeed has a P/S ratio of about 52. Value investors wouldn't touch this stock with a 12-foot pole. However, Lightspeed is quickly becoming an international leader in POS systems among small- and medium-sized companies. Today, the company is present in more than 100 countries and serves about 140,000 customers. This is just the beginning.

Canada's top growth stock

It shouldn't come as a surprise that **Shopify** (TSX:SHOP)(NYSE:SHOP) is listed among the most expensive growth stocks in Canada. Shopify stock has been on a tear since its IPO, and rightfully so. Since going public, Shopify's revenue growth has continued to increase at a rapid pace. In 2020, the company reported a revenue increase of 86% year over year. This year, Shopify reported a 110% increase in its Q1 revenue. Clearly, the company isn't done growing.

Shopify's P/S ratio is slightly below 55, as of this writing. Its PB is perhaps even more mind-blowing, which is currently above 20. However, it's not very hard to believe that buying Shopify today wouldn't be a great opportunity for growth — especially if the company continues to grow as it has been over the past few years.

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3. NYSE:SHOP (Shopify Inc.)
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