Market Downturn: 2 Canadian Growth Stocks to Buy

Description

The stock market has only declined by about 3% from its all-time high. Calling it a market downturn is an overstatement. However, some Canadian growth stocks are indeed experiencing a downturn. These stocks are correcting more severely, which is considered healthy for the long-term growth of the stocks, as they are merely giving back some of their gains.

Investors looking for market-beating price appreciation, in the long run, should look into potentially buying these growth stocks in this market downturn.

Docebo stock

Docebo (TSX:DCBO)(NASDAQ:DCBO) has declined about 20% from its all-time high. However, the growth stock is still more than 100% higher than a year ago. So, the correction could be a good time to buy some shares.

The tech company provides cloud-based software as a service (SaaS) solutions that help clients train their employees, partners, or customers via e-learning. With artificial intelligence integrated into the solutions, insights from the data can improve learners' experience.

During the pandemic, more people working at home have driven higher demand for Docebo's offerings. That trend remains intact. Specifically, the tech stock's 2020 revenue climbed 51.8% to US$62.9 million, while having a strong gross margin of 81.66%. Its last 12 month's results, ending with the second quarter, saw even higher revenue growth of 61.4% to US$82.2 million and a gross margin of 81.91%.

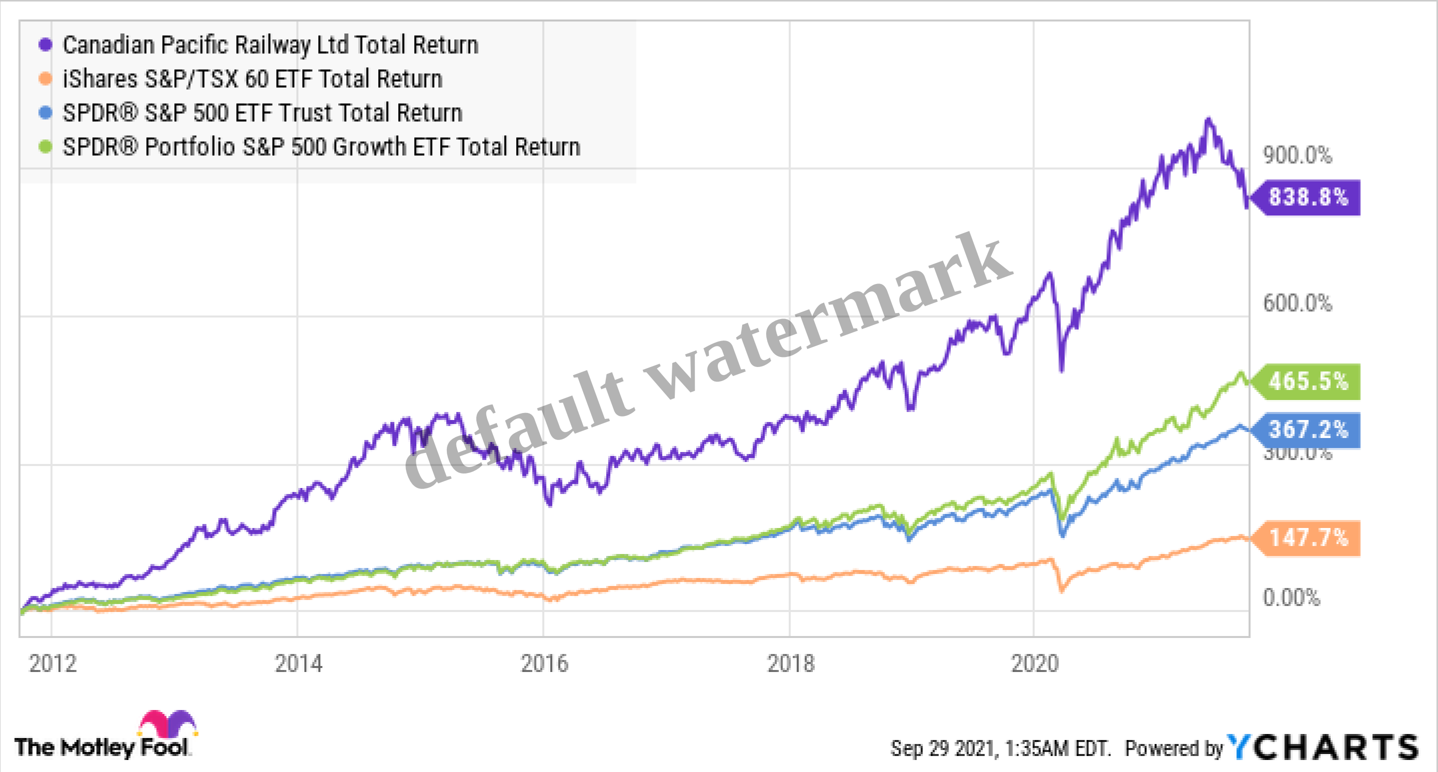
The company smartly raised $128.8 million at a high of $112 per share last week. So, it is well-capitalized to grow the business.

For a safer entry point in the growth stock, wait for it to consolidate before buying. Alternatively, average into the tech stock over time, aiming for a more favourable average cost basis.

Canadian Pacific Railway stock

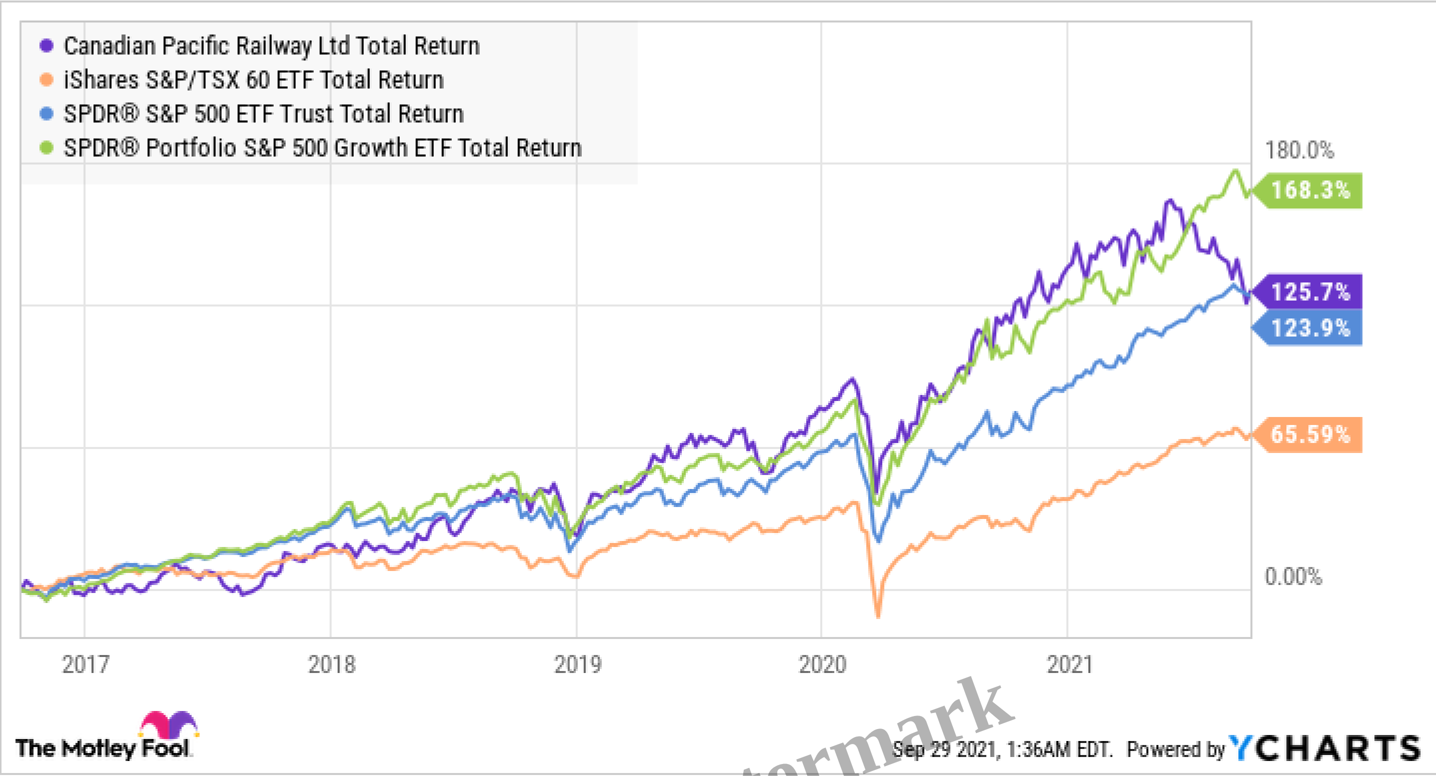
Canadian Pacific Railway (TSX:CP)(NYSE:CP) is another growth stock that has retreated meaningfully from its high. From its recent and all-time high, the railroad stock has declined roughly 16%. Yet, its long-term returns remain impressive. In the past 10 years, it delivered total returns of approximately 24% per year, which *massively* outperformed the market.

In fact, as shown in the graph below, the growth stock beat the 10-year returns of **SPDR Portfolio S&P 500 Growth ETF**, which seeks to follow the **S&P 500 Growth Index** that measures the performance of the large-cap growth segment of the U.S. stock market.



Total Return Level data by YCharts.

CP stock's recent decline pressured its five-year total returns to underperform the SPYG. As a result, the growth stock's dip could be a buying opportunity.



Total Return Level data by YCharts.

In 2020, CP's revenues and earnings were incredibly stable, despite the impacts of the pandemic on the economy.

Canadian Pacific Railway is in the midst of acquiring **Kansas City Southern**. Together, they will create the first single-line rail network that links the United States, Mexico, and Canada. Management projects that the merger will lead to $1 billion of annualized synergies within three years.

Usually, the stock of the acquirer will decline due to the M&A news, which is what has happened with CP's stock. Moreover, in this market downturn, there has been a general sell-off in growth stocks, which is another force of pressure.

Valuation-wise, CP stock is a good buy here. It trades at a forward price-to-earnings ratio of about 20.6, which is reasonable for its estimated three-to-five-year earnings-per-share growth rate of about 10-12% per year.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

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2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CP (Canadian Pacific Railway)
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