3 Capital Growers Worth Buying Despite Overvaluation

Description

Many investors think that the goal of value investing is to find undervalued assets. But that's only part of the whole definition. A value investors' goal should be to balance return potential with value. An undervalued asset that offers little to no return potential is, at best, an instrument for capital perseveration (possibly beating inflation) and, at worst, simply dead weight in your portfolio.

In contrast, an *overvalued* asset with powerful capital growth potential may be a much smarter "value" purchase.

A "training" company

CAE (TSX:CAE)(NYSE:CAE) has been a leader in aircraft simulations and training for quite a while. Before AR and VR became mainstream, and the computing power of handheld devices went through the roof, simulating complex machines like aircraft took a lot of hardware and software innovation. It still does, but modern tech has made it a bit more accessible, giving companies like CAE new opportunities to grow (in addition to presenting more challenges).

But that's not all CAE does. The company has leveraged its global reach (which is quite extensive) and has expanded into other avenues besides civil aviation. Its revenue from defence training far exceeds that of its civil aviation training, and it's also making great strides in the health care industry.

The stock, which is currently quite overvalued with a price-to-earnings multiple of 72.7, has returned about 244% to its investors in the last decade, and if it can do the same in the next one, it's definitely worth buying at its current value.

A utility company

While not as expensive, **Waste Connection** (TSX:WCN)(NYSE:WCN) is a significantly more powerful capital grower than CAE. The company has returned about 400% to its investors in the last decade, which is quite impressive for a solid waste management company which, like other utility/essential services businesses, is coveted more for capital safety than growth.

The company has an extensive reach in Canada and the United States. The geographic reach is matched by its portfolio of services, many of which have to do with recycling, which can make it a good investment from an environmental responsibility perspective (if not ESG as a whole). It's also a dividend aristocrat, but the yield lags behind growth.

A tech stock

Constellation Software (TSX:CSU) can seem a bit too mainstream, especially to value investors who prefer to dig deep in order to find hidden value gems. But it would be a mistake to deny the potential of this growth powerhouse. Currently, the most expensive (by price tag, not valuation) stock on the TSX has grown the capital of its investors by a whopping 2,200% in the last decade.

So even if it performs half as bad as its history suggests, it would still be a better growth stock than the other two on this list, which are great capital growers in their own right. And even though it's fundamentally overvalued, the value is not painfully overclocked the way it is for a healthy portion of the tech sector. And considering its growth potential, CSU might even be considered a bargain at its current valuation.

Foolish takeaway

Looking for undervalued stocks asset that also offers great upside potential is the best-case scenario, but barring that, analyzing valuation from a return potential perspective is a better approach than the reverse.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:CAE (CAE Inc.)
2. NYSE:WCN (Waste Connections)
3. TSX:CAE (CAE Inc.)
4. TSX:CSU (Constellation Software Inc.)
5. TSX:WCN (Waste Connections)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. adamothman
2. jguest

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Date
2025/08/14
Date Created
2022/02/13
Author
adamothman