1 High-Growth Play That's Actually Cheap

### Description

High-growth stocks and cheapness are pretty much oxymorons these days. Indeed, when it's tough to value stocks that aren't yet making a profit (which compromises pretty much most of the high-growth stocks talked about these days), it's really hard to deem a stock is cheap. Indeed, just because a stock has fallen by a certain amount doesn't mean it's cheap or even fairly valued.



You may suspect I'm about to bring a battered, unprofitable growth stock to your attention. But in this piece, I'm looking at a group of stocks that are actually profitable, with multiples that don't do them justice. They've fallen too hard, too fast, but, unlike many U.S. growth stocks hogging the headlines, the following names are looking cheaper than most of the value plays out there today.

## Chinese stocks: Growth and value?

Enter **BMO MSCI China ESG Leaders Index ETF** (TSX:ZCH), a group of intriguing securities to play the beaten-down Chinese stock market. Undoubtedly, **Tencent Holdings** and **Alibaba** comprise a massive chunk of the portfolio at the time of writing (around 40% of the ETF). The two big Chinese tech behemoths have been in a world of pain for quite some time now. Tencent stock is down over 42% from its high hit in the early stages of last year, while Alibaba, a Charlie Munger favourite, is down around 62% from its high.

Undoubtedly, both companies are akin to some of the tech leaders atop the S&P 500. The only major difference other than the country of domicile (and regulatory environment)? The valuation. Alibaba and Tencent are growing fast, disrupting tech markets in a similar fashion as many of the U.S. tech behemoths. While China is seen as a "wild west" for Canadian and U.S. investors, given the profound uncertainties, I think that the risk/reward tradeoff is tough to pass up at current levels, especially for investors looking for real profits and value, which is pretty tough to find in the U.S. with valuations as stretched as they have been.

## Alibaba and Tencent: Wonderful businesses at wonderful prices?

Now, just because names like Alibaba and Tencent look too cheap to ignore relative to their predictable earnings growth profiles doesn't mean they're without their fair share of risks. Indeed, China has a brutal regulatory environment. Further, delistment could be a concern, if the Chinese-American relationship does not improve moving forward.

Still, the question investors should ask themselves is, just how much of a discount should such wonderful businesses deserve, given the chances of delistment and regulatory roadblocks? What are the odds that such popular Chinese stocks will face further downside if they're to be delisted from U.S. exchanges? It's tough to say, but arguably, most of the smart money (except Charlie Munger) has turned into scared money.

Personally, I'm a bigger fan of Chinese stocks versus the likes of unprofitable American companies that boast price-to-sales (P/S) multiples north of 30 times. They're also hard to value. But I'd argue it's easier to value a company with a lengthy track record of financials to look to than some hot IPO that's now in free fall. Indeed, it's tough to tell if U.S.-China relations will improve. If they do, delistment concerns may be overblown, and top-notch Chinese stocks like Tencent and Alibaba may prove undervalued here.



## The bottom line

You can have value and growth together in Chinese equities. Charlie Munger is a brilliant man, and he's been doubling down in his Alibaba stake on the way down. Could the man be right again? I'd argue the odds are his side, and China investment risks may be overblown relative to the rewards to be had.

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