1 of the Best Earnings-Growth Stocks to Watch in April

Description

There's a major difference between growth stocks with real earnings and the so-called story stocks that may not be in GAAP profitability until many years down the road.

Heck, some said story stocks with ridiculously high multiples may never make the shift into the profitable territory. And that's the real risk when going on the hunt for sexy growth plays when there's a frenzy. Indeed, those who chased momentum stocks in 2020 were hurt if they held. While I'm not against buying certain types of stocks with upward momentum, I think that buying stocks without conducting a thorough valuation can be dangerous, especially if there's extreme momentum involved.

Undoubtedly, buying momentum alone is not only lazy but is a top beginner mistake that can get many market newcomers in a bit of trouble.

With the tech bear market now behind us (the Nasdaq 100 fell 20% peak to trough before recovering), it's hard to tell what the next course will be. Is it too early to conclude that the tech bear has returned to his cave? Or could it make an emergence at some point over the coming quarters?

If things go wrong, I wouldn't at all be surprised if the speculative tech bear market continues on. Indeed, Cathie Wood's ARK Invest line of funds will likely lead the downward charge, and they're an indicator of how such innovative, expensive tech is doing at any given time.

Story stocks versus real earnings growth: Know the difference

For now, I'd much rather stick with the Nasdaq 100 types of growth and tech companies. Most are profitable and have been unfairly dragged down amid the recent rate-sparked valuation reset. The biggest knock against the Nasdaq 100, though, are its valuations. Many profitable companies within the basket are not cheap. Some boast price-to-earnings multiples well north of the 40 times mark. After unprofitable growers, the expensive high-P/E stocks are next up on the hit list in times of rising rates.

How to mitigate any damage coming at such firms? Insist on reasonable multiples and, if possible, insist on solid balance sheets. The more cash and cash equivalents on the sidelines, the less of a hit a firm will take as rates move to 2% and perhaps even 3% over the next five years.

Giving profitable growth a spin

Currently, Canadian toy firm **Spin Master** (TSX:TOY) strikes me as an intriguing earnings-growth stock to watch going into April. The company has averaged over 12% in top-line growth over the last five years. With the recent quarter revealing high double-digit growth, I think Spin stock is deserving of a multiple far greater than just 18.9 times earnings. Operating margins are improving (currently around 14%), thanks in part to strength in the digital games business and recent operational improvements.

Indeed, it's digital games that should have investors most excited about the company's next leg of growth. Finally, Spin has a magnificent balance sheet that opens the door for potential M&A opportunities within the toy space. With an enviable lineup of brands, TOY stock is a name to watch closely going into year-end. Should shares dip below $40 per share, shares of the $4.5 billion firm may be an enticing pick up, regardless of what the broader markets do next.

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Date
2025/07/20
Date Created
2022/03/27
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