Should Growth Seekers Buy Capstone Stock Ahead of Earnings?

Description

Capstone (TSX:CS) is set to announce earnings on May 12 for Motley Fool investors. The copper producer fell by 28% in April alone but is finally starting to see a slight recovery. Should growth seekers buy Capstone stock ahead of earnings?

What happened in Q1?

The biggest piece of news for Capstone stock that Motley Fool investors should know was the completion of a combination with Mantos Copper. Approval came in late March, leading to the drop in share price that we saw in April. However, it's not what you think.

Under the new arrangement, old Capstone was replaced with Capstone Copper. In a press release, the company announced, "each issued and outstanding common share of old Capstone has been exchanged for one newly issued common share of Capstone Copper, which together represent 60.2% of the issued and outstanding common shares of Capstone Copper."

So what?

This shift changes Capstone stock from a mining company to a copper-focused company. And, of course, analysts weighed in on the approval once it came through.

There was a mixture of opinions by analysts. Some saw the combination as incredibly beneficial to shareholders, increasing their target price due to the shift. While others now believe the company will "sector perform" instead of "outperform." This could come from inflationary pressures on near-term costs, according to one analyst.

Now what?

Regardless of near-term issues, Capstone stock remained a "buy" by analysts thanks to its long-term growth outlook. As one stated, it supports the 15% compound annual growth rate announced by Capstone over the next five years. Having existing infrastructure for support as well as higher mining and milling rates and synergies will support growth for the foreseeable future.

With all that in mind, Motley Fool investors may not see the substantial growth they hope for from Capstone stock on May 12. The costs of the merger, inflation, and other pressures will certainly weigh on earnings. That being said, with today's share price fall to around $5.60 as of writing, it's a great time for long-term investors to consider the stock.

In fact, at these levels, Capstone stock could be considered quite the deal — especially with this merger on the books. After falling to about $5.35 per share, shares are up by 5% since that time. Analysts continued to give the stock a target price of $9 per share since the news. That represents a potential upside of 60% as of writing.

Furthermore, it trades at valuable levels as of writing, with shares trading at 7.93 times earnings and 3.19 times book value. While shares are only up 4.43% in the last year, they've climbed 435% over the last five years. That includes soaring through the March 2020 crash with hardly a scratch on it.

Foolish takeaway

Long-term growth seekers should continue to watch Capstone stock for further growth. The next earnings report may show a lot of spend, with higher inflation. But long term, copper is a growing industry. The focus on this metal will continue to improve performance for Capstone, especially after this recent merger.

Capstone stock will report earnings on the morning of May 12.

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