



1 Growth Stock Set to Soar 1,000%, According to Cathie Wood

Description

After a stellar 2020, Cathie Wood's ARK Invest hasn't done so hot. Shares of the staple **ARK Innovation ETF** ([NYSEMKT:ARKK](#)) are down almost 77% from their all-time highs.

While the firm's results might be changing, its investment strategy isn't. ARK Invest continues to buy innovative growth stocks, and it has become increasingly optimistic about **Roku** ([NASDAQ: ROKU](#)). The streaming platform is ARK's third-largest position across all its ETFs as of this writing.

Why, you might ask? Cathie Wood and ARK Invest have a very optimistic price target on the company of \$605 by 2026, which implies a 1,050% return from the stock's current price of roughly \$52.60. But is this price target within reach for Roku?

Wood might be overly optimistic...

Many growth investors investing in riskier companies are trying to beat the performance of the **S&P 500** index, which has returned roughly 11.9% annually since 1957. However, when investors try to "beat the market," many of them anticipate earning only a few more percentage points annually. Therefore, Wood's price target of \$605 on Roku might be too outlandish.

This price target reflects more than 1,000% price appreciation over only four years, implying a compound annual growth rate topping 84%. In other words, Wood hopes Roku's share price will jump 84% every year (on average) for the next four years.

While beating the market has been done before, that price target projects some extremely rare price appreciation. For comparison, **Apple** has seen returns of roughly 518% over the past decade. While that has handily beaten the market, that's only half of what Wood expects for Roku (over an even shorter period).

This isn't to mention the headwinds facing Roku over the coming year or two. With the challenging economy in the U.S. right now, Roku has two issues on its hands.

First, consumers are less likely to spend on discretionary goods like televisions right now. Second, the challenging macro environment is causing businesses to pull back ad spending, where Roku makes a lot of its money. Because of this, Roku softened its Q3 revenue guidance, and it now foresees just a 3% year-over-year revenue expansion for the quarter.

Not only that, but Roku's profits fell drastically over the past few quarters. At the beginning of 2022, Roku's trailing-12-month free cash flow was almost \$200 million, which has since fallen to a burn of \$5 million. The same goes for trailing-12-month net income.

But she might be on to something

While Cathie's price target might be overshooting, there are still reasons to be optimistic about Roku over the long haul. Streaming is picking up drastically, recently overtaking cable TV in terms of usage. According to **The Trade Desk**, connected TV streaming reached 109 million households in the U.S. in 2021, far higher than the 68.5 million cable subscriptions in the U.S. over the same period.

Streaming might be on the rise, but advertisers haven't made the shift yet. Advertisers are predicted to spend just 22% of U.S. TV ad budgets on streaming in 2022, while U.S. consumers ages 18 to 49 spent 50% of TV time streaming in the second quarter of 2022. These figures will likely converge over the long haul as advertisers realize the benefits of advertising on streaming platforms.

Considering Roku is the leading streaming platform in the U.S., Canada, and Mexico, with over 63 million active accounts, the company looks best positioned to capitalize on this massive opportunity.

Does the reward equal the risk?

Roku might not be considered a safe stock, but the potential reward for owning the company for the long haul seems to outweigh the risks. Yes, the short term could be painful for Roku as advertisers pull back ad spending and consumers purchase fewer TVs. However, the future is moving toward streaming. As long as Roku remains the leader in this space as streaming picks up, Roku could reap significant benefits over the long haul.

Additionally, if you're willing to own this stock in a diversified portfolio, you can buy shares now at historically cheap prices. At 2.4 times sales, Roku has not traded around this valuation since coming public in 2017.

With an attractive long-term opportunity ahead and the brand name and scale to benefit, Roku could be a winner, although maybe not as big a winner as Cathie Wood projects.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)

2. NASDAQ:ROKU (Roku)
3. NASDAQ:TTD (The Trade Desk)
4. NYSEMKT:ARKK (ARK ETF Trust - ARK Innovation ETF)

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Date

2025/08/18

Date Created

2022/10/20

Author

motley-fool-staff

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