2 Small-Cap Stocks to Buy Before the Market Rebounds

Description

Stock investors will remain on edge if central banks keep raising interest rates to rein in inflation. The **TSX** started strong in November but gave up its early gains when the U.S. Federal Reserve announced another jumbo rate hike (0.75%) this week. All 11 primary sectors fell into the red, led by nosedives in healthcare and materials stocks.

Aggressive rate hike cycles cause share prices to fluctuate, sometimes wildly, although some stocks appear more resilient despite these sector rotations. Healthcare is the worst-performing sector, yet **Medical Facilities** (TSX:DR) is up 20.2% thus far in 2022. Auto parts supplier **Martinrea International** (TSX:MRE) is down 11.6% year to date but posted a massive 12.9% gain in one day (November 2, 2022).

Both small-cap stocks have solid growth potentials and could even outperform large-cap stocks over the long term. You can consider adding one or both to your investment portfolio before the market rebounds.

Winning healthcare stock

Medical Facilities had total returns of 56% and 38% in 2020 and 2021, respectively, and is operating true to form. The healthcare stock will most likely reward investors with positive gains again in 2022 on top of the decent 2.94% dividend. This $289.2 million company owns highly rated, high-quality surgical facilities in the United States.

The diverse portfolio consists of specialty surgical hospitals and ambulatory surgery centers. Medical Facilities has a unique setup as it operates the facilities in partnerships with physicians. According to management, the aging population and ever-growing number of outpatient procedures are major growth drivers.

President and CEO, Robert O. Horrar, said after the first half of 2022, “Regardless of the future uncertainty over COVID-19 and recent cost pressures, we continue to take a balanced approach to the business. Our cash flow and balance sheet remain strong.”

In Q2 2022, net income increased 87.6% to US$22.2 million versus Q2 2021. Despite higher labor costs and other operating expenses during the quarter, surgical case volumes continue to improve. For June alone, volume grew by 8.1% compared with June last year. Medical Facilities also paid higher dividends year to date, C$4.9 million versus C$4.4 million in the same period in 2021.

Record sales

Martinrea International reported impressive financial results for Q3 2022, including record quarterly sales. The $1.2 billion in sales during the quarter represents a 41% increase from Q3 2021. Management credits the marked improvement in sales to easing supply shortages, and Martinrea also passed on more inflationary costs to customers.

In the same quarter (three months ended September 30, 2022), net income reached $35.9 million compared to the $17.1 net loss a year ago. Pat D’Eramo, Martirea’s CEO, notes the improved production volumes and reduced product launch costs during the quarter, but some supply-related disruptions could still impact operations.

High energy costs in Europe are also headwinds for the $803.9 million auto parts maker. Nonetheless, Martinrea expects to continue progressing as it negotiates for higher prices to offset inflationary pressures.

Dividend-payers

Medical Facilities and Martinrea are reasonably priced at $10.97 and $10 per share, respectively. Furthermore, the pair of resilient small-cap stocks are dividend-payers. The healthcare stock pays a decent 2.94% dividend, while the yield of the industrial stock is 2.29%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:MRE (Martinrea International Inc.)

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