3 Small-Cap Stocks to Buy Before the Market Rebounds

Description

Amid improving macro factors, with the Federal Reserve indicating smaller interest rate hikes in the coming months, the global equity markets have bounced back strongly over the last two months. However, small-cap stocks have failed to participate in the recovery rally and are trading at a substantial discount from their recent highs. So, here are my three top small-cap picks that you can buy as the market looks to rebound.

WELL Health Technologies

WELL Health Technologies (TSX:WELL) is a telehealthcare company, which had witnessed robust growth during the pandemic. However, the concern that the reopening of the economy could hurt its growth and rising interest rates have dragged its stock down. It currently trades over 45% lower than its 52-week highs, while its NTM (next 12-month) price-to-earnings multiple stands at an attractive 11.9.

Meanwhile, WELL Health has delivered solid quarterly performances, with its revenue and adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) growing by 47% and 23% in the September-ending quarter, respectively. With the growing penetration of internet services and the development of innovative services, the popularity of telehealthcare services is rising, thus benefiting the company. Also, its innovative product launches and continued acquisition could drive the company's financials in the coming quarters. Meanwhile, the company's management hopes to achieve a revenue run rate of $700 million by the end of next year.

Given its high-growth prospects and attractive valuation, I expect WELL Health to outperform the broader equity market over the next three years.

goeasy

goeasy (TSX:GSY) is another excellent small-cap stock to have in your portfolio, given its excellent track record, fragmented subprime lending market, and attractive valuation. The company has been posting solid performances over the last 10 years, with its revenue and adjusted earnings per share

(EPS) growing at 15.9% and 29.1%, respectively. The company has continued its uptrend in 2022, with its revenue and adjusted EPS growing by 26% and 11%, respectively. The expansion of its loan portfolio amid record loan originations has driven its financials this year.

Meanwhile, goeasy's growth prospects look healthy, as it focuses on strengthening its loan distribution channels, expanding its product offerings, increasing its penetration, and adding new verticals. Meanwhile, the company's management is optimistic about growing its loan portfolio to $4 billion by 2025, representing a 54% increase from its current level. The expansion of the loan portfolio could boost its top line while expanding its operating margins.

However, goeasy has lost around 34% of its stock value compared to its 52-week high amid the recent selloff. The company's NTM price-to-earnings ratio has declined to nine, which is lower than its historical average. It has a healthy track record of raising its dividend. Its forward yield currently stands at 3%.

Savaria

Savaria (TSX:SIS), an accessibility solutions provider, is my final pick. With the growing aging population and rising income levels, the addressable market for the company is expanding. Meanwhile, the company opened a new factory in Querétaro City, Mexico, earlier this month. Given its proximity to the solid North American dealer network, the facility could be a substantial growth driver in the coming quarters.

With Savaria posting around $577 million of revenue in the first three quarters, the company's management hopes to post revenue of $775 million this year. Its 2022 adjusted EBITDA could come between $120 and $130 million. So, the company's growth prospects look solid. Despite the healthy growth prospects, it trades at a cheaper NTM price-to-earnings multiple of 19.7. With a monthly dividend of $0.0433/share, its yield currently stands at 3.34%, making the stock an attractive buy.

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