A Profitable TSX Growth Stock to Buy in January 2023

Description

With such an unpredictable and choppy bond market, investors should insist on profitable growth companies if they seek to limit downside. While some courageous growth investors will make money from a speculative tech turnaround, I'd argue that the downside risks remain too elevated.

Sure, a so-called zombie stock that's fallen 90% may be a deep-value stock that could double up many times over if things turn a corner. At the same time, the name could be destined to fall to or around zero. Indeed, risking all of one's wealth on an investment is never a good idea, no matter how high the potential rewards are. So, if you can't value a stock, it's probably best to limit your exposure to capital you're willing to part with.

Time to get picky with growth stocks: The case for earnings growth over sales growth

Indeed, the lessons learned in 2022 will be put to work in 2023. Gone will be the days of buying stocks because of the direction of their price. Value and profitability are what lead to higher share prices over the long haul. As we encounter bumps in the road, defensive growth stocks can provide investors greater peace of mind without compromising on long-term returns.

In this piece, we'll consider one profitable stock that can help investors build wealth in a higher-rate world that could see economic growth stall.

PetValu Holdings

PetValu (TSX:PET) is quickly becoming one of my favourite Canadian stocks to buy ahead of a mild recession year. The pet-supply retailer has found a way to grow in a competitive market environment. The stock clocked in 18% in gains for 2022 — pretty terrific results, given the severity of the 2022 market selloff.

At 27.7 times trailing price to earnings (P/E), PET stock may not look like a bargain. Given the resilience of sales in the face of economic headwinds and the firm's plans to nearly double its store count over the next 15-20 years (about 1,200 stores from 633), I'd not be afraid to buy the name at 30-35 times P/E.

Today, **Dollarama** (TSX:DOL) stock trades at north of 30 times P/E, likely due to its defensive growth profile.

Arguably, PetValu has a superior defensive grower, given the "humanization-of-pets" trend, which seems alive and well, even in the face of a downturn. Indeed, I think PetValu's long-term growth targets are a tad conservative. The secular tailwinds in the pet space are incredibly strong. As long as PetValu can sustain its moat in Canada, it'll be able to keep rivals at bay and perhaps accelerate its new-store rollout.

Higher prices and economic hurdles aren't stopping pet owners from continuing to spoil their pets. If anything, tough times could call for greater pet spending, given the comforts that pets provide in harsh times.

Indeed, pet supplies are a very niche corner of retail that can offer defensive (and profitable) growth. Such firms are a rarity, making them worthy of a scarcity premium.

Bottom line

Over the years, PetValu has been chipping away at its debt load. Next up, look for PetValu to put its foot on the gas, as it looks to open up new shops across the country while continuing to invest in its e-commerce capabilities.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:PET (Pet Valu Holdings Ltd.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Investing

Date
2025/07/23
Date Created
2023/01/08
Author
joefrenette