3 Small-Cap TSX Stocks to Buy for Outsized Gains

Description

One can't ask for market-beating returns from a defensive name. You have to take higher risks to achieve higher returns. Small-cap names offer high-risk/higher-reward proposition, as they generally outperform their larger counterparts in a bull market. So, here are three such TSX stocks that offer superior growth prospects.

Precision Drilling

Oilfield services stock **Precision Drilling** (TSX:PD) looks well positioned for 2023 after a massive run last year. It returned 105% in 2022, notably beating its peers.

As oil and gas production companies are sitting on record profits, their expenditures for digging have also gone up. As a result, companies like Precision Drilling have seen greater business opportunities and superior revenue growth.

In the last 12 months, Precision Drilling saw its revenues jump over 40% year over year to $1.4 billion. The company is still a loss-making venture. However, it repaid $100 million of debt last year, overachieving its target of $75 million.

Drilling activity is expected to rise in 2023 amid the golden days of the industry. Its free cash flow is expected to more than double this year compared to 2022, which will likely fuel its share-repurchase program, ultimately creating considerable shareholder value.

Cineplex

One key reason for being bullish on **Cineplex** (TSX:CGX) stock is its recent correction. The stock has lost 40% in the last 12 months and looks appealing from a valuation standpoint.

Cineplex posted comfortable profits for the third quarter of 2023, a rare and much-awaited feat for its investors. It saw an overall handsome performance in the third quarter (Q3), as moviegoers flocked to big screens amid blockbuster releases. The trend could continue in Q4 2022 amid the holiday season. Consistent financial growth will be key for its stock. Cineplex plans to release its Q4 2022 earnings by the middle of next month.

CGX had total debt of $1.9 billion at the end of Q3 2022. Almost 54% of this debt is capital leases and the rest is long-term debt. So, its balance sheet position and leverage do not look that concerning at the moment. Plus, if it receives **Cineworld** settlement in full, it could substantially improve its balance sheet. Notably, this has not been priced in the stock yet due to associated uncertainties.

goeasy

Consumer lender stock **goeasy** (TSX:GSY) is another growth name that has created massive shareholder wealth in the past. It lends to non-prime borrowers and caters to large addressable markets.

Despite being in a risky industry, goeasy has consistently seen industry-leading financial growth for the last several years. Its return on equity averaged around 26.3% in the last five years, and the stock has returned more than 200% in the same period.

GSY's omnichannel presence, robust underwriting, and fitting product range played out well for its business growth. Its strong execution will likely continue to create value for shareholders going forward.

GSY stock has dropped 32% in the last 12 months. Such a steep correction makes it an attractive name for discerned investors.

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1. Investing

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2. TSX:GSY (goeasy Ltd.)
3. TSX:PD (Precision Drilling Corporation)

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