



2 Growth Stocks With Great Profit Potential

Description

My kids love puzzles, particularly those that require locating hidden objects in an elaborate scene. As an investor, I like a different type of puzzle.

Recently, I went searching for two stocks with exceptional revenue and earnings growth at relatively modest valuations — not an easy feat in the current market.

My search started by identifying companies with annual revenue growth better than 10%, and earnings-per-share growth in excess of 15%. To ensure quality revenue and earnings, I included only those companies that met my threshold performance figures over an extended period — in this case, the past five years. Quality revenues and earnings are sustainable, and not the result of one-time events.

With growth in earnings exceeding that of revenue, a company demonstrates efficiency at flowing sales to the bottom line. A better tax rate, reduced overhead, lower input costs, and a smaller share count are all factors that can contribute to superior earnings-per-share growth.

Here are two companies that passed the test, and deserve to be added to your watch list.

1. Gildan Activewear

Montreal-based **Gildan Activewear** ([TSX: GIL](#))([NYSE: GIL](#)) is the leading manufacturer of T-shirts, fleece, and sport shirts used for screen-printing in Canada and the U.S. If you've ever received a golf shirt with your company's logo on it, it was likely made by Gildan.

However, selling its branded line of attire through retail channels is what's driving the company's impressive revenue and earnings growth. Gildan is one of the largest suppliers of branded athletic, casual, and dress socks sold through a wide spectrum of retailers in the U.S., and is now developing into a consumer brand for underwear and activewear.

Gildan plans to implement the same retail strategy here in Canada following ratification of a free-trade agreement with Honduras that will eliminate all duties on clothing made there. Gildan has a large presence in Honduras, with four plants and about 24,000 workers.

Over the past five years, annual revenue and earnings-per-share have grown 12% and 17% respectively. Today, Gildan's trailing P/E ratio of 20 is a slight discount to its average over the past five years.

2. Stantec

With 13,000 employees in 200 locations throughout North America, plus a few international offices, Edmonton-based **Stantec** ([TSX: STN](#))([NYSE: STN](#)) is one of the largest planning, architecture, and engineering design firms.

Over the past 12 months, Stantec's stock is up nearly 60%, compared to a 20% gain for the **S&P/TSX Composite Index** (TSX: ^OSPTX). With outstanding first-quarter results, the company is off to a solid start in 2014. It has already raised expectations for revenue growth in 2014, and is sitting atop a record backlog.

Over the past five years, revenue has grown 10% annually, and earnings-per-share growth is up 38% per year over the same time period. Today, Stantec's trailing P/E of 21 is a slight discount to its five-year average.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GIL (Gildan Activewear Inc.)
2. NYSE:STN (Stantec Inc.)
3. TSX:GIL (Gildan Activewear Inc.)
4. TSX:STN (Stantec Inc.)

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Date

2025/08/24

Date Created

2014/06/11

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