Top Canadian Growth Stocks to Invest In

Description

Growth stocks are companies that are growing at a faster rate than the average company in their industry. Because they have high potential for long-term upward growth, they can become a source of immense wealth for investors, especially if you can buy shares before the company hits its stride.

Of course, that's the challenge: which growth stocks are worthy long-term investments, and which are likely to fizzle out? To help you start separating duds from dynamite companies, let's break down growth stocks and help you find some of the most promising ones for Canadian investors.

What Are Growth Stocks?

Growth stocks are companies that are growing their revenues and earnings faster than most companies in their immediate industry or market sector. These companies typically gain immense momentum because they have an innovative idea, product, or service that no other business offers.

In order to accelerate their expansion, growth stocks will often sacrifice profitability to grow as quickly as possible. That means they'll reinvest profits in the business, rather than paying out dividends.

They'll also have higher prices relative to the company's earnings (or a high P/E ratio), which doesn't typically scare investors, because they're expecting higher earnings over the long run, regardless of what the company earns today. They may look expensive now, but 3, 5, even 10 years from now, today's prices will look unbelievably low.

Volatility of Growth Stocks

Investing in growth stocks can feel exciting, often exhilarating, especially since most growth stock prices can be extremely volatile. When the company does better than expected, prices soar; when they disappoint, stock prices drop hard.

Likewise, during a bear market, growth stocks tend to take the hardest hit, as investors become increasingly uncertain about the company's future. In contrast, growth stocks can soar during bull markets, when consumers have more disposable income and investors are willing to take risks.

How Are Growth Stocks and Value Stocks Different?

In a nutshell, value stocks are companies that are trading below the price most analysts believe the underlying company is worth. Essentially, they're undervalued.

Many value stocks are actually battle-tested companies with a long history of performing well. Whether from a stock market downturn, or investors feeling less exuberant, the company's shares have fallen, even though the business is still financially solid.

In short, they're unadvertised bargains: you buy a share for a low price in the hopes that the company will rebound, rewarding you well.

In contrast, growth stocks are typically new companies with a lot of upward potential. Unlike value stocks, many growth stocks are trading far above what's expected of their industry. This is because investors believe the stock has future potential, and they're betting that the company will achieve its promise and grow to a much larger size.

For this reason, growth stocks could be riskier for investors than value stocks, as it's not always easy to decide which growth stocks will explode in value and which will falter.

What are some of the best Canadian growth stocks?

You don't need to look far to find exciting growth opportunities on the Canadian stock market. To give you an idea of what you should look for, here are six growth stocks you can find trading on the Toronto Stock Exchange.

Growth Stock	Market Cap	Description
Constellation Software (TSX:CSU)	$43 billion	Software holding company that customizes software solutions for public and private companies.
Nuvei (TSX:NVEI)	$10.5 billion	Payment technology provider specializing in mobile, online, and in-store payments.
BRP (TSX:DOO)	$8.6 billion	Manufacturer and designer of snowmobiles, personal watercraft, and all-terrain vehicles.
goeasy (TSX:GSY)	$1 billion	Financial services company that helps consumers buy furniture, computers, appliances, and electronics with leasing agreements and installment loans.
Magnet Forensics (TSX:MAGT)	$977 million	Developer of digital investigation software.
WELL Health (TSX:WELL)	$950 million	Digital health company that operates a network of outpatient medical clinics.

Constellation Software

Constellation Software acquires, manages, and builds software solutions that serve both the public and private sector. In fact, its name is apropos of what it does: like a constellation, whose stars form a picture, Constellation Software manages numerous “mini” software companies that serve different industries.

From 2018 to 2021, Constellation Software increased sales from $3.1 billion to $5.1 billion. The stock’s momentum has returned an eye-watering 2,350% to Canadian investors in the last 10 years alone. This company still has more room to grow, as many analysts expect sales to increase by 20.5% to $7.8 billion and revenue to increase 16.7% to $9 billion in 2023.

Nuvei

Nuvei is a global payments technology company that provides businesses and brands with an omnichannel payments platform. With Nuvei, businesses can accept in-store, online, and unattended payments, and its platforms even accept a growing list of cryptocurrencies.

Back in September 2020, Nuvei made history when it became the largest tech stock IPO on the TSX at $805 million in gross proceeds. And the stock didn’t disappoint: after a single year, it was already trading 275% above its IPO price. Since then, the company has expanded through a number of aggressive acquisitions, and now expects to grow its revenue and volume by 30% in the medium term.

BRP

Unique to stocks on the Toronto Stock Exchange, BRP designs innovative outdoor recreational vehicles such as motorcycles, snowmobiles, personal watercraft, and all-terrain vehicles. The company operates a number of popular brands, such as Ski-Doo, Sea-Doo, Can-Am, and Lynx. Right now, the company markets its products in 130 countries with over 3,200 independent dealers and 190 distributors.

In 2021, BRP grew revenues by 28.5%, normalized earnings by 84%, and net income by 118%. The stock has delivered a 339% return to investors since its IPO in 2013, and is expected to grow over the long term, so long as consumer spending increases and supply chain hiccups are eased out.

goeasy

goeasy is another odd TSX stock that provides a very unique and necessary service: alternative leasing and lending services to Canadians. The company operates three businesses: easyfinancial, which offers personal loans to non-prime borrowers; easyhome, which offers lease-to-own loans for furniture, electronics, appliances and other durable goods; and LendCare, which offers loans for cars, home renovation projects, and healthcare costs.

goeasy has increased sales from $506 million in 2018 to $826.7 million in 2021, and many experts expect the company to hit a billion in sales by 2023. Unique to growth stocks, goeasy also offers a dividend, which the company has raised every year since 2014.

Magnet Forensics

Magnet Forensics develops software and tools that help businesses investigate cyberattacks and digital crimes. Through their investigation software, businesses can uncover evidence from smartphones, computers, and other devices, which can help victims of cyberattacks build stronger cases against perpetrators.

Magnet Forensics makes a strong case as a growth stock. Global damages from cyberattacks are expected to grow 10 times by 2026, and many small businesses are still vulnerable to attacks. While the company has reported modest revenues of $21.4 million, it grew 37% year over year at the end of 2021. Many experts expect revenue to grow to $118 million in 2022 and $151 million in 2023.

WELL Health

WELL Health is a digital healthcare company with facilities in both Canada and the United States. As the largest owner and operator of medical outpatient clinics in Canada, this tech company also specializes in telemedicine and digital health apps, which helped the company grow immensely during the COVID-19 pandemic.

Even with the world reopening after lockdowns, WELL Health continues to grow rapidly. The company's management team expects revenue to exceed $120 million for Q1 2022, while its omnichannel patient visits rose 62% year over year.

How to Choose Growth Stocks in Canada

Growth stocks aren't always easy to spot. Sometimes they're growing quietly behind the scenes, just one innovation away from taking off. Other times they've gained a large following, but they're so new, it's hard to determine if they have potential.

While it might be difficult to pick the next **Shopify** or **Amazon**, here's a few things to look for.

1. Pay attention to cultural trends

Growth stock companies often ride the waves of societal changes and megatrends. For instance, Amazon and Shopify wouldn't have developed without a growing desire for better e-commerce experiences. And Netflix wouldn't have gone anywhere if people hadn't been frustrated with high cable prices and Blockbuster's late fees.

Some common trends you might want to look out for:

- Digital payments
- Green technology and renewable energy

- Cloud payments
- Cryptocurrency acceptance
- Streaming entertainment
- Remote work

If a new product or service has changed the way you traditionally do something—buying groceries, banking, or even communicating with colleagues in a work-from-home situation—the company behind them is worth looking into.

2. Identify companies with strong competitive advantages

Companies that grow fast have products or services which few businesses can match. Some competitive advantages to look for:

- **Network effects**: The network effect happens when the value of a product or service improves as more and more people use it. Think of Slack. If two people in a company of 1,000 use Slack, its value diminishes. But if 898 people are using it, you better believe the remaining 102 won't be far behind.

- **High switching costs**: Switching costs are what consumers pay—in dollars, time, and effort—to switch from one supplier to another. Take Shopify, for instance. Once a business starts using Shopify for its online operations, it becomes a major hassle to switch to one of Shopify's competitors.

- **Low-cost producers:** Low-cost producers take items that consumers are unlikely to cut out—like bread or toothpaste—and produce them at a lower cost than similar companies. They might have a better way of making an item, or produce the item at such a large scale, they can afford to sell them at lower prices. Walmart and Aldi are good examples of low-cost producers.

3. Look for niche markets

The best growth stock companies emerge in uncharted markets where they have ample room to grow. Over time, these companies dominate their niche, until they merge into the broader market.

If you notice a company that sells one product or service so well that they have a loyal ad growing customer base, take notice—you may have found your growth stock company.

Should You Invest in Growth Stocks?

Growth stocks are ideal for investors who have a long-term horizon and can stomach the volatility of these companies. Many growth stocks won't hit their stride for 5, 10, or even 15 years or more.

If you're okay waiting for a growth stock company to reach its full potential, and if you're comfortable with growth stocks being sensitive to price swings, then growth stock investing might be right for you.

On the other hand, if you're near retirement, or you're saving for a short-term goal, it's probably not wise to buy shares in growth stocks. Though the returns can be immense, so can the losses. You might want to invest in something safer, such as blue chips, or companies with more stability.

For investors who don't feel confident picking winners from emerging industries, you can always buy shares of growth-focused ETFs. One share of an exchange-traded fund will spread your money across numerous growth stock companies, which could help you balance the losses of one company with the gains of another.

Some common growth-focused ETFs in Canada include:

- BMO S&P/TSX Capped Composite Index ETF (TSX:ZCN)
- Vanguard Growth ETF Portfolio (TSX:VGRO)
- TD Global Technology Leaders Index ETF (TSX:TEC)

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)
2. TSX:DOO (BRP Inc.)
3. TSX:GSY (goeasy Ltd.)
4. TSX:MAGT (Magnet Forensics)
5. TSX:NVEI (Nuvei Corporation)
6. TSX:TEC (TD Global Technology Leaders Index ETF)
7. TSX:VGRO (Vanguard Growth ETF Portfolio)
8. TSX:WELL (WELL Health Technologies Corp.)
9. TSX:ZCN (BMO S&P/TSX Capped Composite Index ETF)

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