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## 7 Profitable Small Cap Stocks That Analysts Rate As Strong Buys

August 30, 2012 by: ZetaKap | includes: [EBIX](#), [HAFC](#), [JOBS](#), [LOPE](#), [PNNT](#), [PRAA](#), [SGY](#)

If you are an investor who thrives on growth opportunities, it can be a helpful practice to review small cap stocks from a variety of sectors and compare data. This can be helpful in introducing you to unfamiliar companies that may offer goods or services that pique your interest. Today we pulled together a list of small cap sized companies that have two common traits: strong profits and a recent 'Strong Buy' rating from industry analysts. Profitability is a critical factor when considering small cap sized stocks. When a company is generating substantial earnings it points to solid management that has an eye on the bottom line. We think you will enjoy reviewing these small cap stocks and making your own assessment.

The Net Margin is a profitability metric that illustrates, by percentage, how much of every dollar earned gets turned into a bottom line profit. This is just one of many profitability metrics used by investors and analysts to better understand what the company is being left with at the end of the day. Generally, a firm that can expand its net profit margins over a period of time will see its stock price rise as well due to the trend of increasing profitability.  $\text{Net Margin} = \text{Net Income} / \text{Total Revenue}$

The Operating Profit Margin is a profitability ratio that measures the effectiveness of the company's operating efficiency. This metric allows investors to see how much profit is left after all variable costs are covered. If the company's margin is increasing over time this means that it's earning more per dollar of sales. Finding trends in

the Operating Profit Margin helps investors identify companies that are improving profitability over time and managing the economic landscape better than competitors.

We first looked for small cap stocks. We then screened for businesses that analysts rate as "Strong Buy" (mean recommendation < 2). We then looked for businesses that have achieved strong bottom line profitability (Net Margin [TTM]>10%)(1-year operating margin>15%). We did not screen out any sectors.

Do you think these small-cap stocks failed to price their value accurately? Use our screened list as a starting point for your own analysis.

### 1) Ebix Inc. (EBIX)

Sector	Technology
Industry	Business Software & Services
Market Cap	\$886.05M
Beta	1.29



### Key Metrics

Analysts' Rating	1.50
Net Margin	37.95%
Operating Profit Margin	39.59%
Short Interest	31.17%

Ebix, Inc. provides on-demand software and e-commerce solutions to the insurance industry. The company operates data exchanges, which connects multiple entities within the insurance markets and enables the participant to carry and process data from one end to another in the areas of life insurance, annuities, employee health benefits, risk management, workers compensation, and property and casualty (P&C) insurance. It is also involved in designing and deploying broker systems comprising three back-end systems consisting of eGlobal for multinational P&C insurance brokers; WinBeat for P&C brokers in the Australian and New Zealand markets; and EbixASP for the P&C insurance brokers in the United States. In addition, the company offers business process outsourcing services, which include certificate origination, certificate tracking, claims adjudication call

center, and back office support. Further, it focuses on designing and deploying on-demand and back-end carrier systems, such as Ebix Advantage and Ebix Advantageweb targeted at small, medium, and large P&C carriers in the United States and internationally that operate in the personal, commercial, and specialty line areas of insurance. Additionally, Ebix, Inc. provides software development, customization, and consulting services to various companies in the insurance industry, such as carriers, brokers, exchanges, and standard making bodies. The company was formerly known as Delphi Systems, Inc. and changed its name to Ebix, Inc. in December 2003. Ebix, Inc. was founded in 1976 and is headquartered in Atlanta, Georgia.

## 2) Stone Energy Corp. (SGY)

Sector	Basic Materials
Industry	Independent Oil & Gas
Market Cap	\$1.22B
Beta	2.79



## Key Metrics

Analysts' Rating	1.50
Net Margin	19.85%
Operating Profit Margin	32.75%
Short Interest	9.01%

Stone Energy Corporation, an independent oil and natural gas company, engages in the acquisition, exploration, exploitation, development, and operation of oil and gas properties in the Gulf of Mexico and the Appalachia region. As of December 31, 2011 it had estimated proved oil and natural gas reserves of approximately 602 billion cubic feet of gas equivalent. The company was founded in 1993 and is headquartered in Lafayette, Louisiana with additional offices in New Orleans, Louisiana; Houston, Texas; and Morgantown, West Virginia.

## 3) Portfolio Recovery Associates Inc. (PRAA)

Sector	Services
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Industry	Business Services
Market Cap	\$1.69B
Beta	1.24



### Key Metrics

Analysts' Rating	1.40
Net Margin	20.96%
Operating Profit Margin	36.28%
Short Interest	14.49%

Portfolio Recovery Associates, Inc., a financial and business service company, engages in the purchase, collection, and management of portfolios of defaulted consumer receivables. It detects, collects, and processes unpaid and normal-course accounts receivables owed primarily to credit grantors, governments, and retailers. The company also acquires receivables of Visa, MasterCard, and other credit cards; private label credit cards; installment loans; lines of credit; bankrupt accounts; deficiency balances of various types; legal judgments, and trade payables from various debt owners, including banks, credit unions, consumer finance companies, telecommunication providers, retailers, utilities, insurance companies, medical groups, hospitals, auto finance companies, and other debt buyers. In addition, it provides fee-based services, including vehicle location, skip tracing, and collateral recovery services for auto lenders, governments, and law enforcement; revenue administration, audit, and debt discovery/recovery services for local government entities; and class action claims recovery services and related payment processing services. The company was founded in 1996 and is headquartered in Norfolk, Virginia.

### 4) Grand Canyon Education, Inc. ([LOPE](#))

Sector	Services
Industry	Education & Training Services
Market Cap	\$939.57M
Beta	0.52



**Key Metrics**

Analysts' Rating	1.50
Net Margin	12.71%
Operating Profit Margin	20.42%
Short Interest	12.78%

Grand Canyon Education, Inc. provides postsecondary education services in the United States and Canada. It focuses on offering graduate and undergraduate degree programs in education, healthcare, business, and liberal arts disciplines. The company provides its courses through traditional ground campus in Phoenix, Arizona; online; and onsite at the facilities of employers. As of December 31, 2011, it had 43,917 students enrolled in its courses. The company was formerly known as Significant Education, Inc. and changed its name to Grand Canyon Education, Inc. in May 2008. Grand Canyon Education, Inc. was founded in 1949 and is based in Phoenix, Arizona.

**5) 51job Inc. (JOBS)**

Sector	Services
Industry	Staffing & Outsourcing Services
Market Cap	\$1.20B
Beta	1.19



**Key Metrics**

Analysts' Rating	1.30
Net Margin	32.19%
Operating Profit Margin	34.13%
Short Interest	3.00%

51job, Inc., through its subsidiaries, provides integrated human resource services. The company provides recruitment related advertising services, including print advertising services through 51job Weekly, which is a city-specific recruitment advertising publication published once in a week and is distributed as an insert in local newspapers and/or on a stand-alone basis; and online recruitment services through its Website, 51job.com. It also offers complementary human resource related services, such as business process outsourcing, which consist of social insurance and welfare payment processing, regulatory compliance with local governmental employment regulations, and payroll processing; conducts training seminars in business management, leadership, sales and marketing, human resource, negotiation skills, financial planning and analysis, public administration, manufacturing, secretarial, and other skills; provides campus recruitment services to corporations seeking to recruit college and university students; and offers eSearch executive search services to employers seeking to fill mid-level professional, managerial, and junior executive positions. In addition, the company conducts general and customized surveys on salary, employee retention, and other human resource related topics; organizes and hosts annual human resource conferences and events; provides assessment tools that assist human resource departments in evaluating capabilities and dispositions of job candidates and existing employees, in aiding employee placement, and in allocating employee resources; and offers hiring and support services to employers on select recruitment projects. 51job primarily serves large multinational corporations, large national Chinese corporations, and local Chinese enterprises. It provides its services through sales offices, and a national sales and customer service call center in Wuhan. 51job, Inc. was founded in 1998 and is based in Shanghai, the People's Republic of China.

**6) Hanmi Financial Corporation (HAFC)**

Sector	Financial
Industry	Regional - Pacific Banks
Market Cap	\$393.00M

Beta	1.53
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### Key Metrics

Analysts' Rating	1.40
Net Margin	59.48%
Operating Profit Margin	21.02%
Short Interest	3.21%

Hanmi Financial Corporation operates as the holding company for Hanmi Bank that provides business banking products and services in the United States. Its deposit product line comprises business and personal checking accounts, savings accounts, negotiable order of withdrawal accounts, money market accounts, and certificates of deposit. The company's loan portfolio includes real estate loans, such as commercial property, construction, and residential property loans; commercial and industrial loans comprising commercial term loans, commercial lines of credit, small business administration loans, and international trade finance; and consumer loans consisting of automobile loans, secured and unsecured personal loans, home improvement loans, home equity lines of credit, overdraft protection loans, and unsecured lines of credit and credit cards. It also offers various insurance products, such as life, commercial, automobile, health, and property and casualty. The company serves the Korean-American community, as well as other communities in the multi-ethnic populations of Los Angeles County, Orange County, San Bernardino County, San Diego County, the San Francisco Bay area, and the Silicon Valley area in Santa Clara County. As of April 12, 2012, it operated 27 offices in California and 1 loan production office in Washington State. Hanmi Financial Corporation was founded in 1981 and is headquartered in Los Angeles, California.

### 7) PennantPark Investment Corporation ([PNNT](#))

Sector	Financial
Industry	Asset Management
Market Cap	\$392.26M
Beta	1.70



**Key Metrics**

Analysts' Rating	1.50
Net Margin	13.34%
Operating Profit Margin	51.18%
Short Interest	4.22%


PennantPark Investment Corporation is a publicly listed business development firm specializing in direct and mezzanine investments in middle market companies. It invests in the form of mezzanine debt, senior secured loans, and equity investments. The firm invests in equity securities and debt transactions through preferred stock, common stock, warrants, options, subordinated loans, mezzanine loans, and senior secured loans. It seeks to invest in companies based in the United States. The firm seeks to invest between \$10 million and \$50 million in its portfolio companies. Its mezzanine loans, senior secured loans, and other investments in its portfolio companies are between \$15 million and \$50 million. The firm may also make non-control equity and debt investments. PennantPark Investment Corporation was founded on January 11, 2007 and is based in New York, New York.

\*Company profiles were sourced from Google Finance and Yahoo Finance. Financial data was sourced from Finviz on 08/29/2012.

**Disclosure:** I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

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