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# 3 Unloved Small-Caps to Consider Today

By Joseph Harry - February 12, 2013 | Tickers: EBIX, PETS, QLGC | 0 Comments

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Companies with small market capitalizations are less visible and usually less known than large to mid caps, and thus a disconnect between the market and a small-cap company's valuation often occurs. They are also less frequently traded than most of the bigger well-knowns and blue-chips, which often contributes to the lack of analyst coverage and news available in relation to many small-cap companies. Small-caps also often carry much higher risk than their larger counterparts; but more risk sometimes means more upside- especially if the small-cap is discounted or even deeply discounted due to a cold shoulder from Mr. Market out of pure ignorance and not because of the company's fundamentals. Here are a few small-caps that should probably receive more attention:

**Up in the clouds...**

**Qlogic** (NASDAQ: QLGC) is a global leader in high performance networking. The company provides Converged Network Adapters for the emerging Fibre Channel over Ethernet (FCoE) market, Ethernet adapters, Fibre Channel adapters and switches, iSCSI adapters, and routers. QLogic provides components such as adapters, switches and other products relating to networking to larger companies (like **Cisco, Oracle, Dell, IBM**... just to name a few). QLogic's converged network adapters (CNAs) are popular products that are vital to cloud computing systems. The company now trades at a lowly P/E of around 6. This valuation doesn't seem fit for a company that is a solid player in the cloud computing revolution with literally no debt and almost a half-billion in cash. The company also maintains an impressive current ratio of around 8. Qlogic is also trading closer to its 52-week low than its high- even after recently beating estimates and popping a little in share price.

**A recently upgraded software related small-cap**

**Ebix, Inc.** (NASDAQ: EBIX) provides on-demand software and e-commerce solutions to the insurance industry. The company trades at about 9.5 times earnings with a market capitalization of around $626 million. The company has a higher debt to equity ratio at approximately 23.7, as well as a troubling 42.2% of its float being shorted. The company does, however, have an adequate current ratio of 1.26 with $31 million in cash on its balance sheet. There appears to be newly found optimism for the stock as well, as it recently caught an upgrade by TheStreet. The upgrade was attributed to increased revenues (26.3%), which also improved the company's earnings per share (which improved by around 12.2% YOY for the quarter). Growing earnings per share often means growing share prices, but the sustainability of the increased earnings needs to be followed closely. TheStreet has upgraded Ebix from hold to buy, which might inject some momentum into the stock going forward.

**Grab yield from this pet-friendly small-cap**

**PetMed Express** (NASDAQ: PETS), and its subsidiaries, doing business as 1-800-PetMeds, markets prescription and non-prescription pet medications, health products, and supplies for dogs and cats in the United States. This stock isn't nearly as discounted as the two previously mentioned stocks above (with a P/E of around 16)- but trades in a relatively tight range and offers investors a nice dividend that yields about 4.6%. The company also sports a strong balance sheet, no debt, and holds about $45 million in cash. A current ratio of around 8 is also impressive. One thing to keep in mind before considering an investment in this high-yielder, however, is the fact that about 28% of the stock's float is being shorted.

**The bottom line**

Small-caps can be more exciting and can even potentially provide more upside than their larger counterparts, but usually carry more risk as well. They usually require more monitoring than a more recognizable stock, and often have way less analyst and media coverage- which can make monitoring them that much more difficult. Still, if financially strong, fundamentally sound, and/or recently upgraded due to brighter prospects, small-cap companies shouldn't necessarily be completely avoided. If Mr. Market is offering smaller (and possibly riskier) companies for the cheap simply because he doesn't know much about them, more patient, research-inclined investors may be able to hold them until the market realizes their true intrinsic value. The stocks mentioned above are small-caps with solid balance sheets or companies with increased earnings potential that seem to get little attention from investors, but one day they may receive said attention along with capital appreciation- especially on earnings beats or any other catalysts capable of creating knowledge of their presence in the market.

*All financial data and company profiles obtained from Yahoo Finance*