Screens by Jack Hough Published November 5, 2009

3 Stocks With High-Quality Growth

Growth is scarce at the moment. About three-quarters of companies in the S&P 500 index have issued financial results for the third-quarter reporting season. Fewer than 90 of those posted a sales increase over the past year, and fewer than 70 reported better sales and profits.

Also, not all growth is good. A retailer that slashes prices to bring in more business becomes less profitable as a result. A company that must raise excessive amounts of capital to fund its expansion -- whether by borrowing or by selling new, dilutive shares to the public -- might grow its way to poor investor returns.

I recently searched among 1,500 large, midsize and small U.S. companies for firms that recently increased their sales by more than 10% versus a year ago and that grew profits faster than sales. I also looked for impressive profits as a percentage of the amount of capital used to create them. Fewer than two dozen companies made the cut, and many of them, like **Apple** (*AAPL*[1]) and **Amazon** (*AMZN*[2]), were fine growers but seemed worrisomely expensive relative to profits. Below are three that look more affordable.

AmSurg

Nashville-based **AmSurg** (*AMSG*[3]) operates “practice-based ambulatory surgery centers.” In other words, it partners with groups of doctors to open surgery centers near their offices, which provide procedures that typically have patients back on their feet soon after. Chief among these are endoscopies, exploratory procedures in which fiber optic scopes are run through the digestive tract. Other top sellers include laser eye surgeries, knee repairs and tonsillectomies. AmSurg and its doctor partners split the proceeds. Medicare reimbursement cuts are restraining the company’s growth at the moment. In its most recent quarter, sales climbed 11% and earnings per share 13%, but sales at longstanding surgery centers were flat. Nonetheless, shares seem cheap at less than 13 times earnings.

First Cash Financial

Pawn shops and payday loan centers go together like assault and battery. The first collect hefty finance charges on loans to the cash-strapped using their personal property as collateral, and the second do so with repayment backed by a claim on future paychecks. Both activities are highly profitable in good times and bad, but lawmakers frown more on the second than the first; so it speaks well for shares of **First Cash Financial** (*FCFS*[4]) that just 16% of the company’s sales come from U.S. payday loans, and that most of those are issued in its home state of Texas, which is relatively friendly to the cause. Growth trends are excellent in Mexico, where revenues increased 38% during the company’s most recent quarter (ignoring changes in the exchange rate). Shares of First Cash sell for 12 times earnings.

Ebix

Atlanta-based **Ebix** (*EBIX*[5]) sells software to the insurance industry: underwriters, exchanges, claims processors and, soon, salespeople. It’s a tiny company, with less than $100 million in sales over the past year, and it’s ambitiously priced, with a stock market value of close to $600 million. But the business is highly profitable, with more than 40 cents of each sales dollar turning into operating profit over the past year. Shares are 19 times earnings, which makes them about as pricey as the S&P 500 index at the moment, but early forecasts for Ebix’s 2010 earnings call for growth of 24%.

[1]http://www.smartmoney.com/quote/AAPL/
[2]http://www.smartmoney.com/quote/AMZN/
[3]http://www.smartmoney.com/quote/AMSG/
[4]http://www.smartmoney.com/quote/FCFS/
[5]http://www.smartmoney.com/quote/EBIX/
URL for this article:
http://www.smartmoney.com/Investing/Stocks/3-Stocks-With-High-Quality-Growth/?afl=yahoo

smSmallBiz ™ SMARTMONEY ® Layout and look and feel of SmartMoney.com and smSmallBiz.com are trademarks of SmartMoney, a joint venture between Dow Jones & Company, Inc. and Hearst SM Partnership. © 1995 - 2009 SmartMoney. All Rights Reserved. By accessing and using this page, you agree to our Privacy Policy and Terms of Use. All quotes delayed by 15 minutes. Delayed quotes provided by Interactive Data Real-Time Services, Inc.. Historical prices and fundamental data provided by Morningstar, Inc. Mutual fund data provided by Lipper. Mutual Fund NAVs

are as of previous day's close. Earnings estimates provided by Zacks Investment Research. Insider trading data provided by Thomson Reuters. Upgrades and downgrades provided by Briefing.com.
You Are Viewing: SmartMoney.com — Investing, Saving and Personal Finance.