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America's Next Top Growth Stock

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June 3, 2010

Growth stocks are the beauties of the stock world, plain and simple. They're exciting, they have good stories, and they can make you a lot of money.

But for all their beauty, growth stocks are also the *prima donnas* of the market. They can be erratic, they don't always live up to their billing, and they tend to attract a shareholder base that's ready and willing to run at the first signs of slowdown. For those reasons, caution is certainly in order when you enter the world of growth investing.

Fortunately, The Motley Fool's CAPS service brings us the collective intelligence of a community of more than 165,000 investors and is a great resource for separating the Jessica Albas from the Jabba the Hutts. Each of the stocks competing for this week's top spot has a market cap of at least $100 million and grew its earnings per share by an average of 15% or more per year over the past three years. Let's go ahead and meet our contestants.

Company	3-Year EPS Growth Rate	Price-to-Earnings Ratio	CAPS Rating (out of 5)
salesforce.com (NYSE: CRM)	274%	142.6	*
Fuel Systems Solutions (Nasdaq: FSYS)	138%	6.9	**
Google (Nasdaq: GOOG)	27%	22.4	***
IBM (NYSE: IBM)	18%	12.4	****
Ebix (Nasdaq: EBIX)	67%	13.7	*****

Source: Yahoo! Finance, Capital IQ (a Standard and Poor's company), and CAPS as of June 2.

Growth without good looks
Though salesforce.com tops this group in terms of growth, it's at the very bottom in terms of CAPS rating. The reason is pretty simple: valuation.

salesforce bulls could point out that it's maintained a sky-high valuation for most of its publicly traded history and has still delivered impressive results. Since late 2004, salesforce has become a five-bagger.

Though that argument is factually true, investing on the back of huge valuations can be playing with fire. Ignoring the huge valuation on **Cisco**'s stock, for example, would have been fine in 1998 and 1999, but continuing to ignore it in 2000 would have been disastrous.

So while salesforce's stock could continue to climb, investors need to hope either that earnings skyrocket or they figure out the right time to hop off the ride.

Just a few years ago, I could have said something very similar about Google. The company's trailing growth was impressive and the future looked good, but it seemed unlikely that the company could live up to the stock's hefty valuation.

Thanks in part to the market's overall decline, Google's stock has stayed essentially unchanged for three years, even though the company has grown earnings by about 100%. That has dragged Google's price-to-earnings ratio (P/E) down from a high of 64 in early 2007, to about 20 today.

Many CAPS members have been attracted to Google's stock as the valuation has shrunk, but not everyone's convinced. Though a P/E of 20 is relatively attractive when compared with Google's historical valuation, the company still needs to deliver peppy growth to justify that valuation. And as Google is already a huge company, it seems reasonable to assume it's going to have to look outside of its core search advertising business to get that growth.

While the company has soundly stomped **Microsoft** (Nasdaq: MSFT) in search, its efforts on other fronts haven't been quite as overpowering. And though Google's Android platform is making moves, the incremental revenue isn't terribly clear-cut, as Google's currently giving out Android royalty free. That could all change quickly and Google's current price could look like a steal, but for now, the CAPS community is on the fence.

On the flip side of the valuation picture, Fuel Systems' torrid growth and single-digit P/E make the stock look like a screaming bargain. The CAPS community hasn't quite come to that conclusion, though. Fuel Systems' earnings per share more than doubled in 2009, but analysts see the company's bottom line shrinking this year and next, and that's unlikely to help convince CAPS members that this alternative fuel systems company is the real deal.

Strutting their stuff
While the stocks above haven't been able to sufficiently inspire CAPS members, IBM has.

The five-year stock charts for IBM and **Dell** (Nasdaq: DELL) tell a pretty interesting story. Over that period, IBM is up around 60%, while Dell has slumped by roughly 60%. Why the stark divergence? Awhile back, IBM realized that staying in the business of selling computer hardware -- particularly PCs -- would end up a sucker's business and so it de-emphasized its hardware segment in order to focus on higher-margin business lines like software and services.

The results have been pretty striking. For the five years ending this past January, Dell's revenue has grown roughly 8%, total, while its net margin has been squashed from 6.1% to 2.7%. IBM, meanwhile, watched its revenue fall slightly over the same period, but its net margin jumped from 7.8% to 14%. So while Dell's earnings per share slumped by over 50%, IBM's just about doubled.

Though CAPS members seem to largely appreciate IBM's savvy business shift, they still don't think the company's stock is quite as good as this week's top growth stock, Ebix.

Like salesforce.com, Ebix offers a software-as-a-service model heavy on recurring revenue and is going after a big market opportunity. Also like salesforce.com, Ebix has delivered significant growth. But unlike salesforce.com, Ebix enjoys fat margins and has a stock with a *very* reasonable valuation.

Maybe Ebix is still small enough to fly under investors' radars. Or maybe insurance industry software just isn't sexy enough to attract a lot of attention. Either way, Ebix's trailing P/E ratio seems like a deal considering that analysts expect the company to grow earnings by 15% per year going forward.

While the rest of the market may be missing out on Ebix, *Motley Fool Rule Breakers* hasn't overlooked it; it's been a recommendation since mid-2008. CAPS members haven't overlooked it either, and the stock currently carries CAPS' highest rating.

CAPS member texasflyfish provided one of the most recent outperform ratings for Ebix and gave a quick, on-the-money pitch: "Huge market potential for a small company."

Now go vote!
Do you think Ebix has what it takes to be America's next top growth stock? Head over to CAPS and let the rest of the community know what you think.

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