

5 High Growth Tech Stocks At A Deep Discount And With Big Upside Potential

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| includes: [AAPL](#), [DTLK](#), [EBIX](#), [KLIC](#), [ZIX](#)

Disclosure: I am long [AAPL](#), [KLIC](#), [ZIX](#). (More...)

One way to find stocks with a better chance of outperforming the market is to look for high-growth stocks that, for one reason or another, have fallen out of favor, but now have big upside potential. Those stocks must have very low debt and generate strong free cash flow.

I have searched for very profitable companies with strong growth prospects in the technology sector. I have elaborated a screening method, which shows stock candidates following these lines. Nonetheless, the screening method should only serve as a basis for further research.

1. The screen's formula requires that stocks comply with all the following demands: The stock is included in the Russell 3000 index. [Russell Investment explanation](#):

The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected.

2. Average annual earnings growth estimates for the next 5 years is greater than 19%.

3. Price to free cash flow is less than 15, (many investors prefer using free cash flow instead of net income to measure a company's financial performance, because free cash flow is more difficult to manipulate. Free cash flow is the operating cash flow minus capital expenditure).

4. Trailing P/E is less than 15.

5. Forward P/E is less than 15.

6. The PEG ratio is less than 0.75, (PEG - price/earnings to growth ratio, is a widely used indicator of a stock's potential value. It is favored by many investors over the P/E because it also accounts for growth. A lower PEG means that the stock is more undervalued).

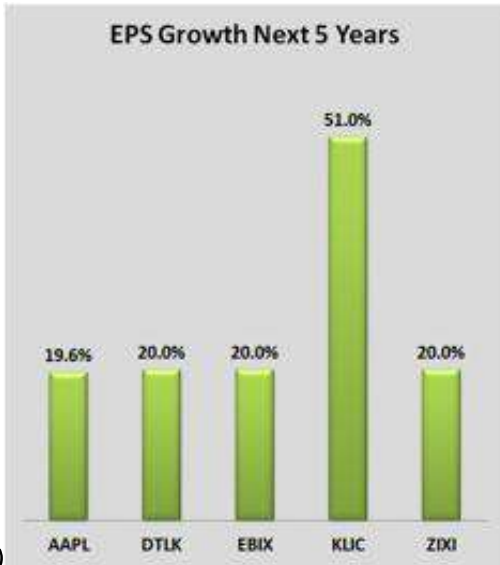
7. Debt to equity is less than 0.25.

8. Average analyst recommendations are bullish (less or equal 2.00).

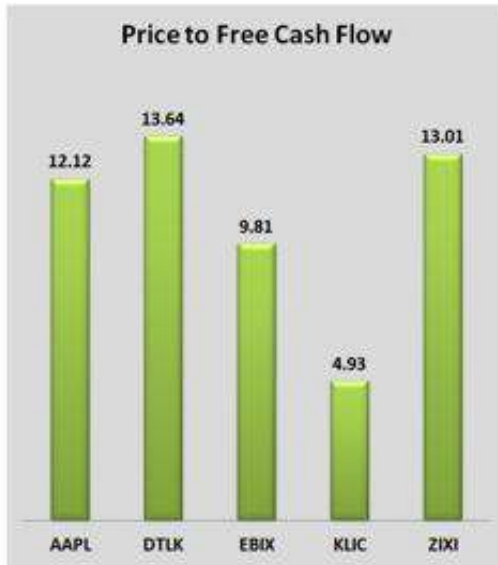
Company	Symbol	Last price	Market Cap (\$millions)	Trailing P/E	Forward P/E	PEG Ratio
Apple Inc.	AAPL	533.90	502,230	12.09	9.23	0.62
Datalink Corporation	DTLK	8.32	154	14.60	8.76	0.73
Ebix Inc.	EBIX	16.94	632	9.63	9.21	0.48
Kulicke & Soffa Industries	KLIC	11.64	874	5.49	6.50	0.37
Zix Corporation	ZIXI	2.81	172	8.26	13.38	0.41

(click to enlarge)

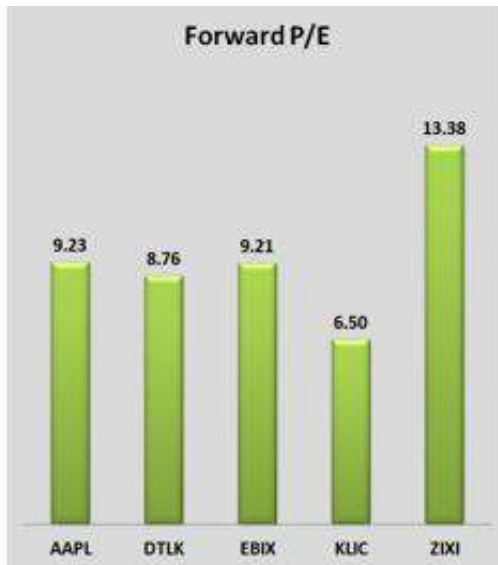
Data: finviz.com

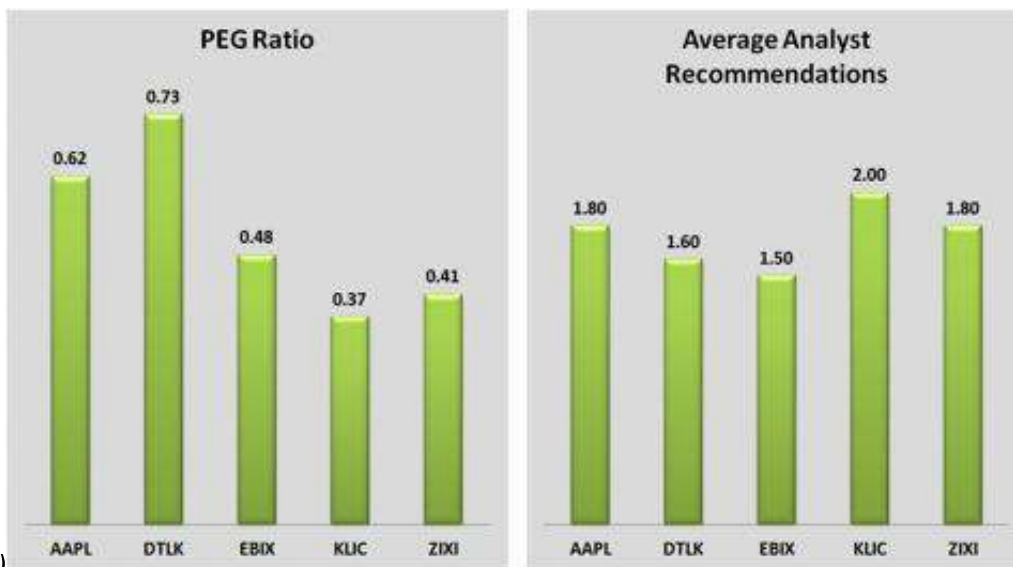


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Apple Inc. ([AAPL](#))

Apple has no debt at all and it has exceptionally good valuation parameters. The PEG ratio is at 0.62, the lowest ratio among the major large-cap companies included in the S&P 100 Index and the seventh lowest PEG ratio among the large-cap companies included in the S&P 500. The average annual earnings growth for the past 5 years was extremely high at 62.22%, and the average annual earnings growth estimates for the next 5 years is also very high at 19.64%.

The trailing P/E is very low at 12.09 and the forward P/E is even lower at 9.23. The price to free cash flow for the trailing 12 months is also very low at 12.12. The company is trading 23.93% below its 52-week high and has 41% upside potential based on the consensus mean target price of \$754.02. Analysts recommend the stock— among the 57 analysts covering the stock, 50 analysts rate it as a strong buy or as a buy.

Yesterday an article was published on Forbes' site ([here](#)) that J.P. Morgan analyst Mark Moskowitz is out pounding the table on Apple shares, sticking to his overweight rating and \$770 stock price, and asserting that manufacturing yields on the iPhone 5 may be improving. According to Mark Moskowitz:

In recent days, the stock has been under severe pressure as investors react to signs that the supply chain has been adjusting to lower orders from Apple related to iPhone 5. Our research indicates that the order cuts could impact the March quarter, but build plans are ever-changing. Either way, we think the order adjustments are explainable but not alarming. We also think that the supply chain adjustments could imply that manufacturing yields on iPhone 5 have improved, which means Apple's gross margin profile could rebound to 40%, which would be a positive.

The compelling valuation metrics, the strong growth prospects, the strong analyst's recommendation and the 41% upside potential based on the consensus mean target price of \$754 are all factors that make AAPL stock a bargain right now.



(click to enlarge)

Chart: finviz.com

Datalink Corporation ([DTLK](#))

Datalink Corporation engages in the design, installation, and support of data center solutions to mid and large-size companies.

Datalink has no debt at all and it has a low trailing P/E of 14.60 and a very low forward P/E of 8.76, the PEG ratio is also very low at 0.73. The price to free cash flow for the trailing 12 months is very low at 13.64 and the average annual earnings growth estimates for the next 5 years is very high at 20%. Analysts recommend the stock-- among the seven analysts covering the stock, three rate it as a strong buy and four rate it as a buy. The company is trading 24.36% below its 52-week high and has 28% upside potential based on the consensus mean target price of \$10.67.

On October 25, Datalink reported its 3Q financial results ([here](#)). Revenues for the quarter ended September 30, 2012, increased 16% to \$104.8 million compared to \$90.1 million for the quarter ended September 30, 2011. The company reported net earnings of \$7.3 million or \$0.42 per diluted share, compared to net earnings of \$7.2 million, or \$0.45 per diluted share, for the nine months ended September 30, 2011. The cheap valuation, strong growth prospects, the analysts' recommendations and the positive 3Q financial results are all factors that make the DTLK stock quite attractive.



(click to enlarge)

Chart: finviz.com

Ebix Inc. ([EBIX](#))

Ebix, Inc. provides on-demand software and e-commerce solutions to the insurance industry.

Ebix has a very low debt (total debt to equity is only 0.24) and it has a very low trailing P/E of 9.63 and even a lower

forward P/E of 9.21, the PEG ratio is also very low at 0.48. The price to free cash flow for the trailing 12 months is very low at 9.81. The average annual earnings growth for the past five years was very high at 52.55% and the average annual earnings growth estimates for the next five years is also quite high at 20%. Only two analysts are covering the stock, rating it as a strong buy and as a buy. The company is trading 36.08% below its 52-week high and has 68% upside potential based on the consensus mean target price of \$28.50.

On November 08, Ebix reported its 3Q financial results ([here](#)). EBIX beat estimates on both top and bottom lines. Total Q3 2012 revenue was \$53.8 million, an increase of 26% on a year-over-year basis, as compared to Q3 2011 revenue of \$42.6 million. Q3 2012 diluted earnings per share rose 13% year-over-year to \$0.46 as compared to \$0.41 in the third quarter of 2011. The compelling valuation metrics, the strong growth prospects, the strong analyst's recommendation and the good 3Q financial results are all factors that make the EBIX stock quite attractive.



(click to enlarge)

Chart: finviz.com

Kulicke & Soffa Industries Inc. ([KLIC](#))

Kulicke and Soffa Industries, Inc. designs, manufactures, and sells capital equipment and expendable tools to assemble semiconductor devices, including integrated circuits, discrete devices, light-emitting diodes, and power modules.

Kulicke & Soffa has no debt at all and it has a very low trailing P/E of 5.49 and a very low forward P/E of 6.50, the PEG ratio is also very low at 0.37. The price to free cash flow for the trailing 12 months is extremely low at 4.93. The average annual earnings growth for the past five years was very high at 51.02% and the average annual earnings growth estimates for the next five years is also quite high at 15%. Analysts recommend the stock-- among the three analysts covering the stock, two rate it as a strong buy. The stock price is 3.25% above its 20-day simple moving average, 10.50% above its 50-day simple moving average and 7.52% above its 200-day simple moving average, which indicates short-term, mid-term and long-term uptrend.

On November 08, KLIC reported its fiscal 4Q financial results ([here](#)). On that occasion, Bruno Guilmart, Kulicke & Soffa's President and Chief Executive Officer, said:

The fourth quarter ended a very strong year for K&S with results at the high-end of our guidance. We are succeeding in a challenging market due to our multi-segment leadership, flexible manufacturing strategy, R&D strength, free cash flow generation and our improving, debt-free balance sheet. We were able to achieve record annual net income of \$160.6 million due to the operating leverage we have created in our business combined with a favorable product mix.

The very low multiples, the strong growth prospects and the impressive fiscal 4Q financial are all factors that make KLIC stock quite attractive.



(click to enlarge)

Chart: finviz.com

Zix Corporation ([ZIX](#))

Zix Corporation provides email encryption solutions in the software as a service model in the United States.

Zix Corporation has no debt at all and it has a very low trailing P/E of 8.26 and a low forward P/E of 13.38, the PEG ratio is extremely low at 0.41. The price to free cash flow for the trailing 12 months is very low at 13.01. The average annual earnings growth for the past 5 years was extremely high at 50.83% and the average annual earnings growth estimates for the next 5 years is also very high at 20%. The company is trading 17.6% below its 52-week high and has 63% upside potential based on the consensus mean target price of \$4.58. Analysts recommend the stock, among the four analysts covering the stock, one rates it as a strong buy and three rate it as a buy.

On October 23, Zix Corporation reported its 3Q financial results ([here](#)), ZIXI beat estimates on revenues and was in-line on EPS.

Third Quarter 2012 Financial Highlights:

- Third quarter new first year orders of \$2.6 million, including a one-time catch up of approximately \$300,000.
- New first year orders for the nine months ended Sept. 30, 2012, were \$6.8 million compared to \$5.2 million for the same period last year, representing 31.0% year-over-year growth.
- Third quarter revenue of \$11.0 million, an increase of 15.3%, year-over-year, the Company's 15th consecutive quarterly record in revenue.
- Third quarter GAAP net income of \$0.03 per share, a decrease of 18.9%, year-over-year.
- Third quarter Non-GAAP net income of \$0.04 per share, an increase of 3.6%, year-over-year.
- The Company generated approximately \$4.6 million in cash flow from operations, a decrease of \$0.1 million, year-over-year.
- Cash and cash equivalents totaled \$23.0 million, an increase of \$4.2 million compared to the June 30, 2012, ending cash balance.

The cheap valuation, the strong growth prospects, the analysts' recommendations and the positive 3Q financial results are all factors that make the ZIXI stock quite attractive.



[\(click to enlarge\)](#)

Chart: finviz.com