Five Growth Stocks for the Next Five Years

We all want to capture the bolters. The stocks that are seemingly tapped into the zeitgeist, the megatrends that dominate the market's attention, disrupt industries and deliver outsized returns for those holdings them.

But how to find such stocks?

Well, as mentioned above, it's more about what's happening globally. What are the irresistible forces that are driving growth around the world? From there, it's about identifying the companies that are best placed to benefit from those irresistible forces. Not all companies are created equal so focus on quality, size and a sustainable competitive advantage.

In that vein, we present to you our five growth stocks for the next five years. And just in case you needed to see how powerful getting stock selection right over a longer time period can be, see below for the best 50 performers in the ALL ORDs from the last five years. The cells highlighted yellow have a market cap over $1bn.

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ALL ORDS		
Code	Name	5 Years
PFT.AX	PURE FOODS FPO	+83,400%
DEG.AX	DE GREY MINING	+60,233%
ANO.AX	ADVANCE NANOTEK	+14,493%
FMS.AX	FLINDERS MINES	+12,054%
LYC.AX	LYNAS RARE EARTH	+7,656%
BUB.AX	BUBS AUSTRALIA	+7,186%
AVH.AX	AVITA MEDICAL IN	+5,690%
CHN.AX	CHALICE MINING	+3,308%
CIA.AX	CHAMP IRON FPO	+3,194%
INR.AX	IONEER FPO	+3,067%
TPW.AX	TEMPLE & WEBSTER	+3,059%
YAL.AX	YANCOAL FPO	+3,032%
EMR.AX	EMERLD RESOURCES	+2,960%
MAU.AX	MAGNETIC RESOURC	+2,960%
BGL.AX	BELLEVUE GOLD	+2,770%
LTR.AX	LIONTOWN RESOURC	+2,347%
Z1P.AX	ZIPCOLTD FPO	+1,978%
AVZ.AX	AVZ MINERALS	+1,850%
CDA.AX	CODAN	+1,730%
LEG.AX	LEGEND MINING	+1,525%
OMH.AX	OM HOLDINGS	+1,400%
CMM.AX	CAPRICORN METALS	+1,389%
HE8.AX	HELIOS ENERGY FP	+1,355%
PME.AX	PRO MEDICUS	+1,190%
NEU.AX	NEUREN PHARMACEU	+1,036%
GLL.AX	GAL ENERGY FPO	+1,009%
JIN.AX	JUMBO INTERACTIV	+956%
PYC.AX	PYC THERAP FPO	+956%
APX.AX	APPEN	+894%
WGO.AX	WARREGO FPO	+857%
NWH.AX	NRW HOLDINGS	+849%
PNI.AX	PINNACLE FPO	+840%
AQZ.AX	AAVIATION FPO	+833%
PCK.AX	PAINCHEK LTD	+825%
FMG.AX	FORTESCUE METALS	+767%
PNV.AX	POLYNOVO	+757%
PET.AX	PHOSLOCK FPO	+745%
XRO.AX	XERO FPO	+711%
JHG.AX	JANUS HENDERSON	+662%
PAR.AX	PARA BIO FPO	+657%
IMD.AX	IMDEX	+656%
PPK.AX	PPK GROUP FPO	+639%
OCL.AX	OBJECTIVE CORPOR	+613%
DDR.AX	DICKERDATA FPO	+565%
GRR.AX	GRANGE RESOURCES	+547%
MIN.AX	MINERAL RESOURCE	+541%
LOV.AX	LOVISA HOLDINGS	+490%
GGG.AX	GREENLAND MINERA	+480%
MP1.AX	MEGAPORT	+473%
CCX.AX	CITYCHIC FPO	+472%

AfterPay (ASX: APT)

Over the half year to December 2020, APT added 5.8m customers with underlying sales up 106%, to $9.8bn. In November 2020, ASIC released its report into the industry which revealed the total amount of credit extended in the buy now pay later industry almost doubled in 12 months, and that was just in Australia. The release highlighted the attraction of the payment format as part of the evolution of the retail payments and consumer credit markets.

One of the biggest drivers of the sector is the fact that young people do not have credit cards. According to Forbes, only 33% of those between the ages of 18 and 29 are brandishing plastic. The avoidance of interest payments, finance without a credit check and budgeting assistance are other tailwinds buoying popularity.

In an effort to explain valuations, some analysts have looked at total addressable market (TAM) scenarios to rationalise the qualitative and quantitative factors that drive the BNPL market. Some figures range from optimistic to ridiculous but it does help you appreciate the enormity of the industry. Afterpay's (APT) current TAM is $248bn, of which it has a 0.2% share; UBS believe it could eventually grab a 0.1% share of a $416bn market.

As the business matures over the next five years, establishes itself in new geographies, and positive earnings start to sprout from its reports, we expect further share price support to follow.

NextDC (ASX: NXT)

One of the easier five-year stories to sell, it is hard to argue against NXT as a beneficiary of the inevitable increase in data use.

Data usage jumped almost 50% in the first quarter during COVID, according to PC magazine, with many households joining the four-comma club as they surpass 1bn bites of data used in a single month. While NXT isn't necessarily a sexy new technology or business offering, it is most certainly a utility of the future. We are not going to be using less data in 2026 - that is a certainty.

The shift to working from home has also intensified the need for cloud storage. Microsoft revealed a 775% increase in cloud service usage in regions with social distancing and lockdown orders in Q1 of 2020. While we know that restrictions have eased, the work from home revolution is unlikely to go away anytime soon.

NXT upgraded revenue guidance in its first half results on the back of robust recurring revenue, underpinned by long-term customer contracts. Underlying EBITDA guidance was also upgraded. CEO Craig Scroggie optimistic about FY22 with sales in the second half of FY21 already exceeding expectations.

Tesserent (ASX: TNT)

Whilst the numbers in its half year results didn’t garner as much enthusiasm as some might have hoped, the story behind the business remains very much intact. Cyber security is one of the key issues of our time, with more of our lives and business activities shifting online and the threats to privacy following.

The industry is constantly evolving in response to new dangers and behaviours. The number of global ransomware hacks increased by nearly 25% between 2018 and 2019, according to Broadcom. Those trends are unlikely to slow down and demand for businesses that can ensure safety and protection will arguably continue to climb.

The business is currently in a period of indigestion as it works through acquisitions. It is likely more of an opportunity than structural business issue. Entering new geographies like New Zealand and with strong sales and customer numbers, it is well positioned to continue success in the next couple of years. And every now and then, a headline that reads Microsoft cyber-attack helps too.

Macquarie Group (ASX: MQG)

One of the favourites of the Marcus Today team. Macquarie is Australia's premier investment bank and one of the world's largest infrastructure asset managers, with almost $500bn in AUM.

Macquarie's greatest strength is their proven ability to make money in all market conditions, something that has become increasingly important as the rate of change increases and economic cycles become less and less predictable in the face of the global pandemic.

This is a company that expects the unexpected and plans for success in every market. CEO Shemara Wikramanayake emphasised this recently, saying "Macquarie remains well-positioned to deliver superior performance in the medium term due to our deep expertise in major markets; strength in business and geographic diversity and ability to adapt our portfolio mix to changing market conditions; an ongoing program to identify cost saving initiatives and efficiency; our strong and conservative balance sheet; and a proven risk management framework and culture".

There's a reason why Macquarie has been labelled the "Millionaire Factory" and you could do far worse than having MQG tucked away in the bottom drawer.

Betmakers Technology (ASX: BET)

Finally, we have a stock a little higher on the risk/reward scale. BET is a B2B software as a service (SaaS) company that offers full white-label platforms and plug-in widget solutions to the gambling industry – To be clear this is a technology company, not a gambling one.

With a strong foothold in Australia already (they are used by every Australian racing authority and almost all of the major bookmakers) they have been working on their US expansion as online gambling slowly becomes legalised and grows across the states.

In 2020 Americans placed nearly US$35 billion in sports bets, a 53.5% jump on the year prior even though the sporting calendar was decimated by the pandemic. There have been 20 states that have legalised sports betting (plus six that that are in the process of passing a bill) since the legislation was changed to allow states to make their own sports betting laws in 2018. It is expected that within the next few years around 80% of the states will have some form of legal sports betting product. That is a serious appetite for betting and a massive demand to be filled by new bookmakers, all of whom will be in need of a high-quality platform solution to host their product.

BET's prospects received a boost recently, when they unveiled a strategic partnership with industry guru Matt Tripp (founder of Sportsbet and BetEasy) to assist the expansion of their business-to-business wagering strategy locally and in the US, with Tripp putting $25m of his own money into a $75m placement.

There is obviously some serious growth potential in the US market and their expansion there, and with the additional guidance of Tripp, we think BET is well placed to capitalise on the situation.

What to do now?

We do not recommend that you quickly logon to your online broking account and buy all these stocks straight away.

That is not the purpose of this document.

The ideas here are simply that - ideas. It is now up to you to take these ideas and decide, based on your own circumstances, what action to take next.

A lot can change in five years. These changes could have impact on the stocks mentioned above and change our hypothesis, so always be ready for circumstances to change.

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