Three Breakout Stars for 2018

Aside from buying stocks that have been unfairly beaten down, we like to look for stocks that are just beginning to breakout from long consolidation patterns.

We’ve found three that we believe could rally between 25% and 30% over the next year.

Breakout Star No. 1 – Twilio Inc. (NYSE:TWLO)

TWLO provides a cloud communications platform that enables developers to build, scale, and operate communications within software applications through the cloud in the United States and internationally. The company’s programmable communications cloud provides a range of products that enable developers to embed voice, messaging, video, and authentication capabilities into their applications through application programming interfaces. It also provides use case products.

The stock is just beginning to break higher.

In recent weeks, Bank of America Merrill Lynch set a price target of $45 on the stock, believing the company could bring in $1 billion in revenue by 2021. Dougherty & Company also initiated the stock with a buy rating and a price target of $45 a share.

In its latest earnings report, total revenue was up 41% year over year to $115.2 million.

Even better, its customer count at the end of 2017 reached 48,979, up from 36,606 at the end of 2016. That helped the company improve its top line by 44% for the year to $399 million. Many investors were also happy that the non-GAAP net loss was only $0.03 per share for Q4, which was better than the consensus analyst estimate for a loss of $0.06 per share.

Trade:
Buy shares of TWLO at market prices.
Buy to open the TWLO July 20, 2018 42 calls

Breakout Star No. 2 – Weight Watchers International Inc. (NYSE:WTW)

WTW provides weight management services worldwide. The company operates in four segments: North America, United Kingdom, Continental Europe, and Other. It offers a range of products and services comprising nutritional, activity, behavioral, and lifestyle tools and approaches.

As the stock begins to break out of its consolidation pattern, we're recommending it here, believing the stock could rally back to $77.50, near-term.

Fundamentally, the company just beat expectations, earning $63 million, or 91 cents a share, compared with $13 million, or 20 cents year over year. Revenue was up to $313 million from $267 million year over year, as well. *"We had a highly positive consumer response to the launch of our WW Freestyle program in December, which resulted in a strong finish to the year,"* and the company ended 2017 with about 600,000 more members than a year ago, Chief Executive Mindy Grossman said in a statement, as quoted by Market Watch. WTW expects sales around $1.55 billion and per-share earnings in a range between $2.40 and $2.70 for the year…

Trade:
Buy shares of WTW at market prices.

Breakout Star No. 3 – Twitter (TWTR)

TWTR operates as a platform for public self-expression and conversation in real time. The company offers various products and services, including Twitter that allows users to consume, create, distribute, and discover content; and Periscope, a mobile application that enables user to broadcast and watch videos live with others.

Twitter is showing signs of life after analysts at Morgan Stanley raised its price target for the stock to $29 a share, citing improving user growth. *"While previously we were cautious about the durability of TWTR's platform turnaround, more positive advertiser/agency conversations and (we believe) improving user growth make the risk/reward more compelling,"* they noted.

Analysts also expect for company revenue to be $2.75 billion, up more than 2% from a previous forecast for revenue of $2.69 billion. In addition, Twitter had surprised investors in its fourth quarter when it returned to revenue growth. Total revenue climbed 2% year over year - a significant improvement to Twitter's 5% and 4% year-over-year declines in revenue in the company's second and third quarters of 2017.

Technically, the stock is showing strong signs of breaking out from consolidation at $28. We'd like to see a potential near-term test of $36.

Trade:
Buy shares of TWTR at market prices.
Buy to open the TWTR June 15, 2018 31 calls