If You Don’t Buy Avigilon Corp. Now, You’ll Regret It Later

Description

It’s been a rocky year so far for shareholders of **Avigilon Corp.** (TSX: AVO). After peaking at $34 in January, the shares have fallen below $15. What has caused this? And what should investors do?

An introduction to Avigilon

Avigilon is a provider of HD security solutions — in plain English, the company sells HD security cameras and provides the software to go with it. In fact, it’s the only real end-to-end solution in the space.

This is a very fast-growing market, and for good reason. Roughly 90% of security cameras are still analog, which is really a 20th-century technology. Many of these are getting upgraded, and as a result the HD camera market is growing by 50% per year. And Avigilon is growing even faster than that.

Even better, Avigilon is expanding its margins as it grows. The company believes it can get EBITDA margins to 20%-25% by 2016, and is also hoping for sales of $500 million. At this point, there’s very little that seems to be stopping the company.

What’s gone wrong?

A couple of things have made investors nervous. One is a wave of executive departures. The latest was CFO Brad Bardua, who in early May left for “health reasons”, on the same day the company was due to report Q1 earnings. CEO Alexander Fernandes has said that Avigilon has a “high-performance culture”, which may not be for everyone. But the market was not convinced.

Then came the company’s Q2 numbers, which did not meet expectations. More specifically, there was significant margin pressure; the EBITDA margin decreased from 19.6% in Q1 to 13.4% in Q2. Again, Fernandes has a reasonable expectation, saying that the company needs to add lots of people to achieve its growth ambitions.

But once again, the market was not buying his story. And as the stock has fallen, the momentum investors have been selling, too. Just on Tuesday, the stock fell by over 10%, even though there have been no new developments to speak of.

So what should you do?

This kind of scenario is not unprecedented. People get excited about a fast-growing company, but then sell at the first sign of trouble. And investors get hammered.

But Avigilon's story is different than most. For one, its growth story is very much intact; revenue last quarter increased by 66%. Secondly, the company is still profitable — so it's not like many technology companies, which claim that profits will come later if you're willing to wait.

At this point, Avigilon trades at a valuation of just over $500 million (after adjusting for its $150+ million in cash). If it reaches its revenue and profit targets in 2016, this valuation will look like an absolute bargain. This could easily be a golden opportunity.

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