Will Avigilon Corp. Shares Reach $30?

Description

On Monday, TD Securities revised its price target for **Avigilon Corp.** (TSX: AVO) to $30 per share, nearly double yesterday's closing price. Remarkably, TD was actually *decreasing* its target price, which had previously stood at $34 per share. Other analysts seem to be on board as well. CIBC and Imperial Capital have a price target of $25, and Cantor Fitzgerald has a target of $34. The average price target is just a bit under $30.

And while $30 seems a bit far-fetched, Avigilon shares traded as high as $34 in January. So what has caused such a steep decline? More importantly, how realistic is it that Avigilon shares return to that level?

Some context

Avigilon makes money by selling HD security cameras, as well as the software to go with it. This is a rapidly growing market, because 90% of security cameras are still analog-based. Analog is essentially a 20th century technology, and results in grainy pictures that make it difficult to recognize faces and license plates.

And Avigilon is extremely well-positioned to benefit from this growing market. The company is likely the only one that offers an end-to-end solution, which makes life much easier for its customers. As a result, Avigilon is growing very quickly – revenue grew 78% last year, and 67% (year over year) in the most recent quarter. Critically, the company is making money along the way, and margins can expand even further from here.

So why the fall?

This year has certainly been a rocky one. First came a string of three executive departures. Most notably, CFO Brad Bardua left right before the company was due to report first quarter earnings. When asked about the departures, CEO Alexander Fernandes said the company has a "high-performance culture", which may not be for everyone. But investors understandably got nervous; after all, when you see smoke, often there's a fire, too.

Then came Q2 numbers. In the report, revenue was strong, but margins were very weak. Specifically, the company's EBITDA margin decreased from 19.6% in the first quarter to 13.4% in Q2. Mr. Fernandes says this is due to investment-related spending. But once again, investors weren't impressed.

So how far can the shares recover?

By 2016, Avigilon is hoping for sales of $500 million and EBITDA margins of 20%-25%. This would result in at least $100 million in EBITDA. And currently the company is valued at a little over $500 million (adjusted for cash on hand).

For a company growing this quickly, this would make Avigilon an absolute bargain. So there is no reason it can't double in value from here. It would need to prove the executive departures aren't a big deal, and would also need margins to recover, all while maintaining its impressive growth rates.

But this is very achievable for Avigilon, which has such a vast and lucrative market right in front of it. You should therefore listen to the analysts and pick up some shares.

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