



Investors: Check out These 3 “Top Secret” Technology Companies

Description

Right now, the technology sector is red hot.

Just look at the valuations of some of the biggest names in tech. Based on the latest round of financing, Uber is worth \$50 billion. Airbnb is valued at more than \$25 billion. Snapchat, the photo messaging app I don't really understand, was recently valued at \$15 billion.

Snapchat's valuation is particularly interesting, considering how it has approximately the same number of active monthly users as **BlackBerry's** BBM service. Investors could buy all of BlackBerry for US\$6 billion (including debt), which includes the company's hardware and software divisions. Or they could buy about 40% of Snapchat. Which would you rather have?

It isn't just Snapchat's valuation that makes no sense. Airbnb hasn't been profitable since it launched in 2008, and Uber is having issues with local governments in places like New York. It's fine to be enthusiastic about new technology, but many investors are letting their enthusiasm for the next big thing get the better of them.

Fortunately for folks who want a piece of the Internet and technology sector and insist on getting value, there are a few choices out there. These are what I call “secret” technology companies, businesses that are moving away from dying legacy businesses and investing heavily in technology. Let's take a closer look.

Torstar

Torstar Corporation ([TSX:TS.B](#)) is the owner of Canada's largest daily newspaper, the Toronto Star. It also owns several other papers around Ontario, as well as a stake in the Metro papers that have appeared across the country. It also was the previous owner of the Harlequin Romance books, but it sold off that division in late 2014.

The sale has left the company with plenty of cash, which it will likely spend strengthening its web presence. Torstar owns several lucrative web properties, including stakes in Workopolis, Shop.ca, Wheels.ca, Toronto.com, and Wagjag.com. It also owns 50% of a Chinese language newspaper.

These other assets might seem like nothing more than a distraction, but they've quietly become very important. In fact, they're on pace to pass the traditional newspaper business in revenue sometime in 2015, with approximately the same level of profitability.

Investors are getting these assets for an incredibly cheap price. Once you strip out the company's huge cash hoard, shares trade at just seven times free cash flow. That's not quite enough to call the huge 8.9% dividend sustainable, but all the cash helps with that.

Yellow Media

If you're under 40, you're probably already scoffing at this idea. The yellow pages are practically dead, and **Yellow Media Ltd.** ([TSX:Y](#)) actually went through the bankruptcy process a few years ago. Why would anyone invest in it?

There are two main reasons why an investor might be bullish on Yellow Media. The company has joined Torstar by being one of the largest owners of Canadian websites, with names such as YellowPages.ca, Canada411.ca, RedFlagDeals.com, and a handful of apps. In the most recent quarter, digital revenue surpassed traditional revenue for the first time, coming in at 54% of total sales.

The stock is also incredibly cheap with shares trading hands at just 3.6 times earnings. And those earnings were actually up some 10% from the year before. It appears the death of the yellow pages is a bit premature.

DH Corp

Investors might be more familiar with **DH Corp.** (TSX:DH) under its previous name, Davis and Henderson. The company is best known for practically owning the cheque-printing business in Canada.

Management realized the cheque-printing business was going the way of the dodo, so they diversified. The company acquired or built much of the software currently used by banks, real estate agents and mortgage brokers, and other financial institutions.

This creates an underrated advantage for the company. No bank teller or mortgage broker is going to want to switch from a system they've figured out, which creates a sticky customer base.

The stock is a little expensive, but nothing compared with other tech names. Shares trade hands at more than 25 times earnings, but that ratio is expected to fall to just 17.6 by this time next year as earnings grow.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:TS.B (Torstar)
2. TSX:Y (Yellow Pages Limited)

Category

1. Investing
2. Tech Stocks

Date

2025/08/15

Date Created

2015/06/29

Author

nelsonpsmith

default watermark

default watermark