Should You Buy Avigilon Corp. Under $16 After its Earnings Report?

Description

Avigilon Corp. (TSX:AVO) retreated 8% at one point after reporting earnings on July 29. Its price fell probably because it missed consensus earnings estimates by a wide clip of $0.05, hitting only $0.12 earnings per share (EPS) in its second quarter. Should investors view this as an opportunity to buy or as a falling knife to avoid?

The business

Avigilon is a Canada-based company that manufactures and markets megapixel network-based video surveillance systems and equipment. Avigilon's surveillance system is designed to provide video capture, transmission, recording, and playback.

Its products are used by over 25% of the top 50 companies on Fortune Magazine's Fortune 500 list. Further, its customizable and scalable solutions are offered to customers in more than 120 countries. Avigilon's surveillance systems are used to monitor property and protect people and their assets across diverse locations, including stadiums, retail environments, school campuses, casinos, critical infrastructure, and transportation stations.

Why would you buy Avigilon?

Because Avigilon is a small-cap company, investors would typically buy it to spice up the growth in their portfolio. It is still in its early stages of growth, so it's understandable that it pays no dividend.

Ideally, for growth companies we like to see increasing growth in revenue, in EPS, and an expanding margin. However, no company can grow aggressively forever, and we shouldn't expect those numbers to go up nicely all the time. The world just doesn't work that way.

For Avigilon, its revenue grew year over year between 52-86% in the past four years with a decreasing trend, but it's still amazing growth. EPS growth has been positive every year thus far; however, that growth is expected to be at a single-digit low this year, and that's partly why we see weakness in its shares.

Its gross margins are expanding, but the stricter operating margin is showing signs of decreasing since 2014, so investors should monitor that metric as a part of their evaluation process.

Insider buying

Insider buying is always a good sign that shares maybe undervalued.

Director Frederick George Withers bought 3,000 shares on Tuesday, May 26th at an average cost of $18.25 per share, costing a total of $54,750.

Director Wan Jung bought 3,600 shares on Thursday, May 14th at an average price of $16.95 per share, costing $61,020.

Today, the shares are even cheaper at under $16.

Should you buy today?

Valuation-wise, Avigilon is priced with a price-to-earnings ratio (P/E) of under 20, which is considered fairly valued for a high-growth company. If you believe that the anticipated single-digit EPS growth is temporary for this year, and that double-digit growth will resume next year, Avigilon should be considered to be priced at a slight discount now and is a buy.

CATEGORY

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