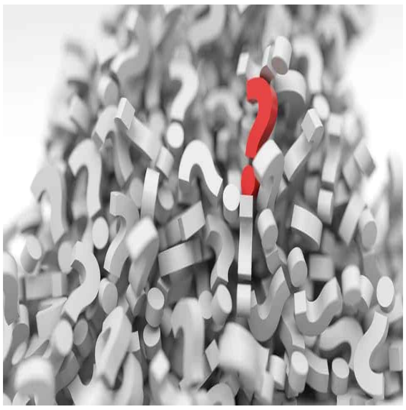

Does X Mark the Spot for This Underrated Canadian Gem?

Description

TMX Group Limited (TSX:X) is engaged in listing and trading equities, fixed income, and derivative products. It also offers information services to the public, including risk management. If you're a Canadian DIY investor, then you've likely bought and sold stocks on TMX Group's exchanges, including the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSXV).

TMX recently pulled back 6.71% on Wednesday following the company's quarterly report which missed on earnings. TMX reported an adjusted diluted earnings per share of $1.12 for Q1 2017, which was up 12% year over year.

Total Q1 2017 revenues grew 5% year over year to $186.1 million from $177.7 million during the same period last year. Net income also increased by a modest 2% year over year for the quarter to $47.3 million from $46.3 million during the same period last year.

Despite reporting decent year-over-year results, revenue from new businesses hasn't been moving upward. CIBC World Markets stated, "Growth from business initiatives has yet to make its mark on the top line." Revenues from derivatives, energy, and new ventures trading were quite weak, and many pundits are becoming skeptical of TMX's growth strategy.

TMX declared a $0.50 per share quarterly dividend, which represented an 11.1% increase. Although the company isn't a dividend-growth aristocrat, it's worth noting that the company's dividend has been rather solid through thick and thin. The dividend remained intact during the Financial Crisis as investors dumped their shares in the midst of the panic.

The dividend of 2.5% is quite stable, but it's slightly lower than the five-year historical average yield of 3.2%. I'm not too confident that the company will be able to grow this dividend by a significant amount over the next few years to hit the 3% mark. I think a pullback is the only way a yield beyond 3% would be possible over the medium term.

The latest earnings report was underwhelming, and I think the post-earnings pullback was warranted and could be the start of a further plunge to lower levels.

The stock currently trades at a 1.5 price-to-book multiple, a 5.4 price-to-sales multiple, and a 13.7 price-to-cash flow multiple, all of which are considerably higher than the company's five-year historical average multiples of 1.2, 3.9, and 11.5, respectively. The stock is not cheap right now, but I would definitely keep an eye on the share price. If shares drop to the $60 level, then I'd definitely consider it again, but until then, I'd look elsewhere.

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