Why Avigilon Corp. Is up 30% Since the Beginning of the Year

Description

It's been quite a wild ride for **Avigilon Corp.** (TSX:AVO) shares.

After rising to highs of $34.00 at the beginning of 2014, the shares proceeded to fall, and fall, and then fall some more, as the company began to sacrifice margins in the name of sales and market share growth.

Light at the end of the tunnel

After a couple of years of downward pressure on margins, it looks like they are finally showing signs of strengthening. In the second quarter of 2017, the company achieved an adjusted EBITDA margin of 17.9%, well above levels achieved in the same quarter last year (9.3%) and in the first quarter (11.8%).

The bulk of the margin improvement came from reduced operating expenses, as management has continued to work on improving efficiency. Operating expense as a percentage of revenue was 41.9% this quarter compared to 51% in the same quarter last year.

And revenue growth was pretty healthy too, with the company posting a 17% revenue growth rate.

Attractive valuation

As we know, expectations have gone through a period of being adjusted downward since the company's glory days of high growth and strong margins, but we also know that the stock and valuation levels have come down to reflect these changes.

And, as is not uncommon in these situations, expectations came down a little too much, it seems. In fact, in three of the last four quarters, the company has significantly beat expectations, which is a good sign that things are turning around.

At this point in time, we see the stock trading at valuations of 22 times 2017 consensus expected EPS and 17.6 times 2018 expected EPS, with an expected earnings-growth rate of 24% in 2017 and 27.6% in 2018.

So, with an accelerating EPS growth rate, rising margins, and healthy cash flow generation, this company is looking good again.

Another really interesting aspect to this story is the company's extensive portfolio of patents related to its video analytics technology. The company is pursuing the licensing of these patents and currently has a licensing revenue stream, but it is not significant as of yet. Management believes that licensing revenue will be more meaningful to Avigilon in 2017 and beyond.

As with any bullish thesis, investors must also be cognizant of the risks involved. So, while the global markets for video surveillance and electronic access control are large and growing, this is a highly competitive market that could see pricing pressure if and/or when the competitive dynamics change.

Also, a number of key competitors have larger financial resources, which leaves Avigilon at a slight disadvantage.

But, at the end of the day, I think the risk/reward proposition on the stock is finally a good one again.

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