1 of Canada’s Worst IPOs Will Shine in 2018

Description

This past year was one of change for the Canadian residential real estate industry, as it grappled with the changing rules imposed by the federal government to slow an out-of-control housing market in Vancouver and Toronto.

Naturally, when **Real Matters Inc.** (TSX:REAL) — a Toronto company providing a scalable independent mortgage appraisal platform in the U.S. and Canada — went public May 11, 2017, the reception was anything but hospitable.

It sold a little more than 12 million shares to the public at $13 a piece, raising $125 million in the process, the company used some of the proceeds to pay down debt, while using the rest to grow its market share in the residential mortgage appraisal industry both organically and through accretive acquisitions.

Although it was Canada’s first tech IPO in two years, Real Matters’s stock dropped on its first day of trading and then proceeded to fall all the way to $8.36 by the end of the summer. It’s since regained some of those losses but remains $3 underwater eight months after going public.

Ouch.

There’s good news on the horizon

There are some reasons why I’m enthusiastic about the year ahead, but here are the three I believe will have the most significant impact on its share price.

In fiscal 2017, Real Matters grew its market share by 30% in the U.S. to 6.5%, resulting in annual U.S. appraisal revenue of US$200.2 million — a 10.6% increase over 2016. It currently provides one out of every 15 residential mortgage appraisals in the U.S. for 60 of the top 100 mortgage lenders south of the border. In 2013, its U.S. market share was less than half where it is today at 2.4% — a compound annual growth rate of 28%.

Over the next five years, as competition heats up, it expects to grow its market share by 15-20%

annually.

Real Matters grew its U.S. title and closing service revenue by 88.4% in 2017 to US$69.5 million. The market for title and closing services in the U.S. is US$13 billion, which is only slightly smaller than the addressable market for mortgage appraisals at US$16 billion. Together, its U.S. revenue accounted for 90% of the company's sales in 2017.

With the tax changes in the U.S., Real Matters should be able to increase its profitability over the next two to three years.

Real Matters's second-largest shareholder after its IPO was EdgePoint Investment Group Inc. at 8.5%, the people behind **Cymbria Corporation** (TSX:CYB), the must-own asset management stock in Canada run by a bunch of former Trimark portfolio managers.

If they saw big things from Real Matters, profitable or not, I like its chances in 2018 and beyond.

Bottom line on REAL stock

Currently trading around just over $10, **Canaccord Genuity** analysts named Real Matters one of its top 24 stock picks for 2018.

"We expect continued strong execution to drive the stock higher in 2018 given our view of a stronger U.S. purchase origination market in the U.S. and opportunities to drive significant share growth from recent Tier-1 wins," stated analyst Robert Young recently.

He expects it to hit $16 within the next 12 months. I do too. It's the one real estate option very few Foolish contributors are talking about.

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