Down Almost 30% YTD, it's Time to Buy This Small Cap

Description

Buy on rumour; sell on news.

The old market adage hit **Tucows Inc.** (TSX:TC)(NASDAQ:TCX) squarely in the face February 14 after the domain name registrar announced fourth-quarter earnings — earnings that were actually pretty darn good.

It didn't matter that revenues were up 86% in the quarter to US$90.6 million; adjusted EBITDA rose 108% to US$15.3 million; operating cash flow gained 55% in the quarter to US$14.1 million.

Investors were having none of it. Down she went, losing more than 10% in early morning trading, recovering slightly as the day wore on. Here's why you might want to consider this small-cap stock.

Flying under the radar

Last August, I'd recommended that investors consider Tucows stock because it had a history of outperforming the TSX. Going public on August 19, 2005, I'd reminded investors that it'd outperformed **Amazon.com, Inc.** over the past 12 years.

In fact, up until 2018, it hadn't had a losing year since 2010, when it lost a measly 2.7%.

Operating two business segments — domain registration and mobile wireless and internet services — it's managed to build a nicely profitable business in both Canada and the U.S.

Let's step back in time to 2012.

Tucows was just launching Ting, the company's U.S. mobile wireless service, which provided nationwide cellular coverage with no contracts while allowing customers to pay for what they use and nothing else. It's grown revenues and profits in every year since.

Now, it's trying to bring the Ting brand to internet services. Although it's still early in the game, Tucows management expects big things from this relatively new service that provides crazy fast fibre internet to three small towns in the U.S., including Charlottesville, Virginia, with Sandpoint, Idaho, and Centennial, Colorado opening soon.

That's a big difference between operating in Canada and the U.S. In Canada, you'd be hard-pressed to be able to launch this service in small towns across our country, whereas there's enough of a customer base in smaller U.S. towns to generate profitable growth.

In Q3 2017, Ting generated gross profits of US$8.6 million on US$23.0 million in revenue (37.4% gross margin) compared to US$11.5 million in gross profits in US$62.0 million in revenue (18.6% gross margin) for its domain registration business.

It's no Comcast

By no means am I suggesting that owning Tucows stock is akin to owning **Comcast Corporation**, but given Tucows launched Ting from nothing seven years ago, the fact it's still growing revenues by 34% a quarter is a very attractive reason to own this diamond in the rough.

Fool contributor Ambrose O'Callaghan recently touched on a short seller — Copperfield Research — who's suggested Tucows is making money by allowing Neo-Nazis and pedophiles to register their domains with the company, despite the fact it's been very diligent about denying access to these sorts of individuals.

Godaddy Inc. (NYSE:GDDY), the largest domain registrar in the world, faces the same problem, yet its stock hasn't had a problem moving higher; it's up 170% since its March 2015 IPO.

Without credible information to the contrary, I'd be very skeptical about this particular short's claims, including those that imply most of its business is structurally broken.

Tucows has been around for a long time with few allegations against the company. I doubt it's about to go rogue now.

Bottom line on Tucows stock

I'm excited by Ting. As long as this part of its business continues to grow organically, I'll be a fan of Tucows stock.

Should you buy its stock? Yes, but don't expect the volatility to subside anytime soon, especially now that the markets have gotten a little rocky.

If it gets anywhere under $60, I'd be backing up the truck.

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