Tucows Inc. (TSX:TC): Buy on the Dip?

Description

More than halfway through 2018, Tucows Inc. (TSX:TC)(NASDAQ:TCX) — the company best known for registering domain names on the interest but which also provides mobile phone services and fiber internet service in the U.S. — is having a bad year on the TSX. It's down almost 11% — and 5% of that drop happened in the past month.

It's been awhile since I've covered Tucows stock, so I thought I'd revisit the $800 million market cap to see if now is a good time to buy on the dip.

The latest earnings

Tucows reported its first-quarter earnings in early May, which were solid with revenues and adjusted EBITDA up 38% and 64% year over year, respectively, to US$95.8 million and US$10.4 million.

Here's how its major services did in the quarter by revenue:

Wholesale domain services were up 46% to US$62.9 million, or 66% of its total revenue. This business does the actual registering of your domain names. Ting Mobile services saw revenues increase 22% in the quarter to US$21.9 million. Ting Mobile saw the number of subscribers grow by 2.1% year over year to 286,000 with decent margin growth.

Retail domain services, which include Hover and eNom, generated US$8.4 million in revenue in the first quarter, or 32% higher than a year earlier.

Ting internet revenues rose by 35% in the quarter to US$1.7 million. At the end of April, Tucows announced that Fuquay-Varina, North Carolina, would be the next town to get high-speed fiber internet service. Currently, Ting is in four U.S. towns with Centennial, Colorado, and Fuquay-Varina next on the list.

The year ahead

Echelon Wealth Partners analyst Ralph Garcia was recently quoted in *The Globe and Mail* as suggesting that the company will spend $30 million in 2018 expanding its Ting internet services in the U.S. Garcia believes that profits should begin to accelerate in 2019 as all six cities go online.

In the year ahead, the company's domain services should remain a very stable revenue and profit generator, with Ting Mobile experiencing some margin contraction offset by the gains in fiber internet.

I see the Tucows business model as very sensible. It's not trying to be the biggest internet company out there; it's merely trying to fit into a few niches it can exploit, which in my opinion makes it an attractive small-cap stock.

The bottom line on Tucows

Fool contributor Ambrose O'Callaghan recommended Tucows stock in mid-April, suggesting that the continued online penetration happening around the world — the number of global internet users between 2015 and 2020 is expected to grow by 37% to 4.1 billion— means plenty of opportunity ahead for companies like Ting Mobile.

I first recommended Tucows stock in August 2017. It had a good track record of outperforming the TSX and felt it would continue to do so.

The company has had its fair share of ups and downs since then, but investors can use the volatility to their advantage by buying on the dips. It's why I again recommended that investors should buy in February, when its stock was down almost 30% in six weeks.

Buying this stock in the $60s is a recipe for long-term success. That said, if you're willing to hold for the next 3-5 years, buying in the mid-to-high $70s won't kill you financially.

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Date

2025/07/21
Date Created
2018/07/09
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