Do NOT Put This Tech Stock in Your RRSP

Description

I honestly can't remember how I came across Toronto-based **Symbility Solutions** (TSXV:SY), a micro-cap tech company that provides software products to the property and casualty industry in Canada, but having worked in the insurance early in my career and then later on writing about it, I'm intrigued with its quest to modernize the global P&C industry.

If ever there was an industry in need of modernization, the insurance industry is it. Even **Manulife Financial** CEO Roy Gori feels this way.

"If you apply for an insurance product, you'll get a 16-page application form with 120 questions, more often than not," Gore said in 2017 while speaking at an industry conference. "It's still very paper-based, very manual and, as a result, our industry net promoter scores are really very poor."

I always say the best businesses are those that help people make money, save money, or save them time. Symbility's products conceivably do all three.

However, trading at less than a dollar, I'm not sure how many investors want to bother looking under the hood, but for the sake of curiosity, I've given it a look. Here's what I've found.

Sold off its healthcare business

Fool contributor Andrew Walker recently discussed the reasons why investors ought to be interested in **Telus** stock. About four paragraphs from the top of the article, Walker mentions how the telecom company's healthcare IT business bought Symbility's Health division in May for $16.5 million.

Symbility did this so that it could focus on its property and casualty platform while ensuring a good home for its healthcare business. And heck, $16.5 million pays for a lot of new software ideas.

So, is this a case of addition by subtraction? I believe it is.

At the end of December, Symbility had cash of $8.2 million or 22% of its total assets. At the end of June, after the completion of the sale of the healthcare division, it had $22.1 million in cash or 42% of total assets.

With plenty of working capital and no debt, Symbility's balance sheet is stronger by subtraction. It's not going to go out of business tomorrow.

How about the income statement?

Ok, here it gets a little murkier.

Revenue in the second quarter grew by 9% to $9 million with adjusted EBITDA of $0.2 million, 50% less than in the same quarter a year earlier.

However, as CEO James Swayze reminded investors in its Q2 2018 press release, “The first half of 2018 saw global economic losses from natural disasters down 64% from the 10-year average, resulting in the lowest claims volumes in five years,” Swayze stated.

The second half of its fiscal year looks a lot better given that it was able to grow the number of new clients in the first six months of the year by 148%. As a result of growing its pipeline, Symbility’s confident it will generate $40 million in annual revenue in 2018, which if you exclude the $6.1 million in sales from its healthcare business in 2017, it’s projecting 12% year over year revenue growth.

That’s not half bad if you ask me.

Look at the big picture

In two years, Symbility is projecting $46.8 million in revenue and $6.1 million in adjusted EBITDA; in 2015, it had revenue of $21.2 million and $0 adjusted EBITDA.

Granted, it still has to meet those projections, but if you consider that it’s trading at around 2.8 times enterprise value, the upside for its stock is quite good.

My suggestion: do your due diligence on Symbility and if you’re like me and see a diamond in the rough, consider making a small investment but whatever you do, don’t put it in your RRSP or TFSA.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TU (TELUS)
2. TSX:T (TELUS)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/15
Date Created
2018/09/02

Author
washworth