Reserve a Spot in Your TFSA Retirement Fund for This Cash Cow

Description

Tucows (TSX:TC) stock is a hidden gem that's been battered nearly 30% thanks in part to short sellers at Copperfield Research who've brought up a handful of concerning points that have many investors rattled to this day. The small-cap name doesn't get much media attention from mainstream financial outlets, so there's no question that the Copperfield's short report had received more merit than it rightfully deserved.

"The short-seller report from Copperfield Research certainly had some flaws," said fellow Fool contributor Ambrose O'Callaghan in a previous piece. "Chief among them was the accusation that Tucows was enabling child predators, Neo-Nazis, and an assortment of other unsavoury individuals. However, some of its concerns over weakness in key segments at Tucows have been vindicated."

Short-seller allegations are a definite sign of smoke, but more often than not, there's usually no fire that accompanies the smoke that shorts draw the public's attention to. Nonetheless, shorts will pull out all the stops to try to make a business appear worse than it actually is because a falling stock is money in the bank for them. Moreover, many shorts have been crying wolf of late, especially with Canadian stocks, which appear to be in the crosshairs of various U.S.-based firms.

That's not to say Tucows is in the clear, however, as ICANN-accredited domain registrar Namecheap, could further pressure Tucows' domain business, which has been a terrific cash cow foundation for Tucows as it pursues next-level growth through Ting, Tucows' mobile network and internet service provider.

Tucows saw its earnings take a hit due to low-margin domain transfers over the past year, but in the grander scheme of things, I think the big dip in Tucows stock will be viewed as just another buy-the-dip opportunity. The domain business is a foundation in which the growth potential really lies is in Ting as it continues to roll out fibre internet into various U.S. cities.

Fellow Fool Will Ashworth put it best: Tucows "isn't trying to be the biggest internet company out there; it's merely trying to fit into a few niches it can exploit."

With Ting, Tucows has a relatively low-risk growth profile minus the crummy legacy infrastructure that many of its larger U.S. telecom behemoths possess. It's this enhanced agility that'll allow Ting to command high ROE numbers (50.1% and 45.6% in ROE in 2016 and 2017 respectively), and amplified profitability without any taking on excessive amounts of risk.

Foolish takeaway

Tucows may have a handful of issues, but the business isn't broken. Not even close. Given the company's relatively low-risk growth profile through Ting, its rock-solid foundation in its domain business, and company's high degree of agility as a small firm, I'd strongly urge investors to go long as short-sellers continue to drag the stock down into oversold conditions.

This company is an incredible IT services play that can provide you with the perfect combination of stability and growth.

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