

A Hidden Gem to Bank on the Transformation to 5G

Description

Bargains can more often be found in the small-cap than in the big-cap space because there's much less analyst coverage on small caps. **Baylin Technologies** ([TSX:BYL](#)) may be a [hidden gem](#) with a market cap of about \$150 million.

Baylin Technologies looks cheap on a forward basis

At \$3.67 per share as of writing, Baylin's estimated price-to-earnings multiple of above 50 seems ridiculously high. However, when you factor in the transformation from 4G to 5G and the hardware that's needed, Baylin may actually be severely undervalued.

In fact, the analysts at **Thomson Reuters** have a 12-month mean target of \$5.83 per share on the stock, representing 58% near-term upside potential. However, Baylin is not a short-term story. If the company executes well, it will have many years of growth ahead of it.

What does Baylin Technologies actually do?

Baylin is in the business of wireless communication. The company believes it will grow for a long time with the shift to 5G, which is where the company is focused on in North America.

Specifically, Baylin develops wireless antennas for cell phones, antennas for embedded systems (think the Internet of Things), and infrastructure antennas leading up to the 5G network. It's also involved in satellite communication.

Baylin's financial performance

From 2014 to 2017, Baylin's revenue increased by a compound annual growth rate of about 26%, and its gross margins expanded by about 10% to roughly 30%, as the company reduced cost by outsourcing tasks that were non-critical to its core business.

Here are some key metrics compared to the same period in 2017. As you can see, the company has further expanded its gross margins recently, which is a positive.

	Q1-Q3 2017	Q1-Q3 2018	Change
Revenue	\$67.3 million	\$100.2 million	49%
Gross profit margin	31.5%	39.7%	8%
Net loss	-\$4 million	-\$6.1 million	-55%
Diluted loss per share	-\$0.18	-\$0.16	11%
Adjusted EBITDA	\$3.6 million	\$11.4 million	215%

How's Baylin's balance sheet?

At the end of Q3, Baylin had current assets of \$78.8 million and current liabilities of \$33.3 million, which equated to a strong current ratio of 2.36. The company's debt-to-asset ratio was 0.52. So, the company is not overleveraged.

Investor takeaway

Due to the small size of the company (a market cap of \$146.6 million as of writing), Baylin has little analyst coverage. According to the few analysts who cover the stock, they're all optimistic about Baylin's growth potential.

In the past two years, Baylin spent about 12% of its revenue on research and development, while in 2015, it spent about 15%. So, the company is still investing meaningfully into the business, which we hope will lead to [future growth](#).

As of now, the company still operates at a net loss. However, based on adjusted earnings, it could turn a profit as soon as this year.

Interested investors should do more research on Baylin, and if you still like the company, size your position accordingly. For example, one might allocate less than 1% to a small-cap name such as Baylin but be willing to allocate as much as 5% in a large-cap core holding.

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