



## Will Tucows Inc. (TSX:TC) Hit an Inflection Point in 2019?

### Description

Toronto-based internet and telecommunications company **Tucows Inc.** ([TSX:TC](#))([NASDAQ:TCX](#)) has had a phenomenal run over the past seven years. The stock is up nearly 2,800% since January, 2012. Now, it seems the company is preparing for the next leg of its growth journey.

For much of its history, Tucows has focused its attention on a digital niche that hasn't been exciting since the early days of the dot com bubble – domain name registrations. Wholesale domain services, the core business, generated US\$58.9 million in the most recent quarter, which represents 70% of the company's total sales.

The other 30% of revenue is generated from the company's mobile phone and fiber internet services in the U.S. Tucow's Ting Mobile and Ting Internet go head-to-head against America's biggest telecom and internet service providers. Over the past few years, both divisions have been expanding revenue by double-digit percentages.

However, these growth figures are less impressive when you consider the microscopic scale of the two divisions. Ting Mobile has less than 300,000 subscribers, which represents a little over 0.1% of the total U.S. mobile internet market. Meanwhile, Ting Internet currently operates in just three U.S. cities, making it one of the smallest players in the broadband market.

Total sales for the mobile and fiber businesses added up to US\$22 million, and US\$2 million, respectively, in the third quarter of 2018.

According to the company CEO Elliot Noss, the strategy is to keep generating cash from the [stable domain services](#) and mobile internet businesses to invest in the U.S. fiber network. This should diversify the company's earnings and push it to the next leg of its growth journey. Over time, the company expects the mobile and fiber business to be as big as the legacy domain services one.

Analysts have rightly pointed out that building out a fiber broadband network is time-consuming and capital intensive. However, given that Tucows has US\$10.8 million in cash and cash equivalents on its book and access to a US\$140-million credit facility, the company has more than enough capital needed to expand the mobile and internet network.

Tucows has focused on niche U.S. locations that the big players have missed out for its burgeoning fiber network. Over the course of 2018, the company has deployed an estimated \$30 million into expanding the Ting Internet network to six cities. These cities are expected to go live in 2019, which should have an instant effect on sales and profits.

Analyst Gianluca Tucci of Echelon Wealth Partners expects the company to hit its inflection point for growth in late-2019. TC currently trades at an enterprise value to revenue (EV/S), EV/EBITDA and price-to-earnings ratio of 2.9, 24.4, and 40.8 respectively. Those ratios are higher than the industry average, but in line with the company's growth expectations.

### Bottom line

Tucows has a small but stable and profitable domain services business. While the company is currently investing in its next growth story, the inflection point is still a few quarters away. Meanwhile, the stock trades at a reasonable valuation if adjusted for realistic growth opportunities.

This means investors looking for growth at reasonable prices have a few quarters left to place their bets on Tucows.

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### Date

2025/08/15

### Date Created

2019/01/23

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**Author**

vraisinghani

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