

Hidden Value: Why This Cybersecurity Stock Is a Must-Own

Description

Cybersecurity, or the protection of internet-connected systems, will explode in the next few years as more machines are connected and the [Internet of Things](#) industry hits its growth projections of more than doubling by 2021 (relative to 2017 levels).

With a \$330 market capitalization and a 3.74% dividend yield, **Absolute Software Inc.** (TSX:ABT) provides investors with a relatively small, profitable company that is returning cash to its shareholders as well as investing in growth.

Here are the four main reasons why Absolute Software stock remains a must-own for exposure to the cybersecurity market.

In all the right places

Today's workforce is becoming an increasingly remote digital one, and Absolute's patented endpoint visibility and control solution allows this to function without the threats of attacks to the system.

With a strong concentration of its business in the health care, financials and professional services markets, and high recurring revenues (95% recurring), Absolute is well positioned for future growth and visibility in its business.

Beating expectations

In the last four out of four earnings reports, Absolute beat expectations as profitability and margins are on the rise.

In the latest quarter, the second quarter of fiscal 2019, Absolute reported a 5% rise in revenue, an 88% rise in EBITDA, and went from a loss of \$0.01 per share to a gain of \$0.04 per share.

As a result of this operating momentum, management has increased its fiscal 2019 corporate outlook.

They now expect adjusted EBITDA as a percent of revenue of between 16% and 19% (from 14% to 17%), and they can be expected to be cash flow positive.

Strong financials

Gross margins of 85% and adjusted EBITDA margins of 18% in the quarter reflect significant increases, as the company has been hard at work achieving economies of scale and efficiencies.

Cash on the balance sheet now stands at over \$34 million, and the company has no debt.

This balance sheet and financial strength gives the company flexibility to withstand difficult times as well as the ability to invest in the growth of the business, both organically and via acquisition.

Dividend

Dividends paid are just covered by net income, and more easily covered by cash flows. Given the growth that the company is achieving, payout ratios can be expected to improve dramatically in short order.

Final thoughts

For a small, emerging [tech company](#) to be operating with such solid financials and disciplined capital management is a special thing.

The stock is rallying 5.4% at the time of writing today.

As the company's hidden value continues to emerge, we can expect to see the stock continue its rise.

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