Fibre Is the Future of This Small-Cap Stock

Description

Fool contributor Ambrose O'Callaghan wondered in early March if it was time to take profits on **Tucows** (TSX:TU)(NASDAQ:TCX) stock.

Here's what Ambrose had to say:

"Tucows has been on an absolute tear since early November. Investors who bet on the stock last year should consider taking profits in March. Those who are looking for exposure to Tucows should stay on the sidelines and await a more favourable entry point."

Yes, it's true, Tucows has been on a tear since November.

However, while there's no shame in taking a profit, it's my experience that you have to cut your losers fast and let your winners run. Nothing in the company's press releases or financial results reveals anything remotely resembling a problem.

If its fibre investments continue to hit pay dirt, its best days might be ahead of it. Here's why.

Fibre is key

On March 19, Tucows announced that it would acquire Ascio Technologies for $29.4 million.

Who is Ascio Technologies?

It's a wholesaler of domain names, one of Tucows' main businesses. The company's acquisition adds scale, cementing its standing as the world's largest wholesale domain registrar.

However, its domain business is not Tucows' biggest driver of growth; that would be Fibre.

“Organically, Tucows’ domains business is not the growth driver it once was –our thesis is predicated on its Ting Fibre business being the next growth leg while its domains business provides robust, steady free cash flow to internally deploy,” stated Echelon Wealth Partners analyst Gianluca Tucci.

Tucci has a “buy” rating on its stock and a 12-month price target of $130, 23% higher than where it is currently trading.

Last July, I recommended investors consider buying Tucows’ stock because of Ting, its mobile and internet businesses. I said that buying in the $60s, even the $70s, would result in decent appreciation, which is what’s happened.

Nearing an all-time high of $109.02, the domain business isn’t going to move the needle. Its expansion of the number of cities where it provides high-speed fibre internet will.

Tucci estimates that by the end of 2019, Tucows’ fibre business could be in as many as 60,000 U.S. homes, up from 28,000 in 2018, and 7,000 the year before that. The analyst says its current customer base of 7,000 produces a gross profit of $7 million or $1,000 per customer. By the end of this year, Tucows’ customer base could reach 20,000, generating $20 million in gross profit for the company, more than double this past year.

Ting’s fibre internet is currently in six towns in Colorado, Maryland, Idaho, and North Carolina. Its next town for expansion is Wake Forest, North Carolina, bringing the number to seven and counting.

The bottom line on Tucows stock

Over the last five years, Tucows’ stock experienced three significant corrections.

The first, in May 2017, saw a 23% dip over four months. The second dip came in December 2017 when it lost 22% in a month. The last major correction was last summer and fall when it lost 21% between June and October.

Use that to your advantage.

Buy some now and then wait for a 20% correction. As long as Tucows’ business doesn’t deteriorate, which is unlikely, you’ll have the green light to buy some more.

Since 2012, Tucows’ stock has been on a straight line higher. In 2017, it started to hit some turbulence. I’d expect that to continue.

If you can handle a little risk, Tucows is a excellent small-cap buy.

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