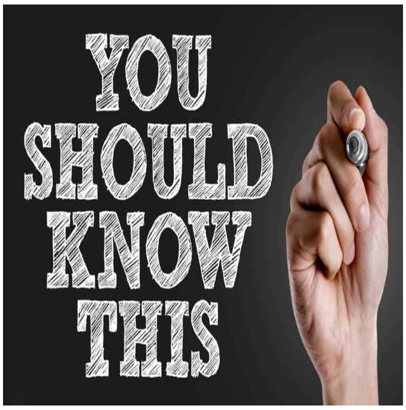

This Tech Stock Has Plunged Over 20% Post-Earnings: Here's Why You Should Buy the Dip

Description

Tucows (TSX:TC)(NASDAQ:TCX) is a Toronto-based company and one of the largest domain registrars in the world. Shares were down 1.53% in trading at the top of the noon hour on May 16.

Back in early March, I asked whether investors should seek to take profits in Tucows stock. At the time Tucows had just achieved an all-time high in its share price. I encouraged investors to wait for a more favourable entry point if they were looking to buy as Tucows stock was technically overbought. Is now that time?

Shares of Tucows have fallen sharply after the release of its first-quarter 2019 results. Net revenue dropped 18% year-over-year to $78.9 million and net income dropped 25% to $2.79 million. Net income declined 26% on a per share basis to $0.26. Tucows benefited from a bulk transfer of 2.65 million domain names in the first quarter of 2018. However, excluding that accelerated revenue, net revenue for Q1 2019 still dropped 3% from the prior year.

Tucows was targeted in a short-selling campaign by Copperfield Research back in the summer of 2018. The report alleged that Tucows would be subject to a significant material loss in an ongoing lawsuit. More sensationalist elements of the report alleged that Tucows had enabled Neo-Nazis, child pornographers, and other sordid elements.

The company still reported strong cash flows from its Domain Services and Ting Mobile businesses, which should support its investment in its "outsized" Ting Internet push going forward. Cash and cash equivalents at the end of Q1 2019 stood at $11 million compared to $12.6 million at the end of Q4 2018 and $16.6 million at the end of the first quarter in 2018.

Tucows CEO Elliot Noss conceded that this was a quarter during which the company would have been better off private. This was in reference to the sharp year-over-year drop in revenue, which was primarily due to the Q1 2018 bulk transfer. However, there are some issues with this perspective. Tucows still posted a 3% drop in revenue year-over-year, and Tucows faced headwinds in its Ting Mobile business as well as the domain aftermarket.

Tucows will derive much of its growth going forward from its fibre. It aims to double its fibre business in US homes by the end of this year, with each new add boasting a tasty gross profit per customer. The expansion of this business will see the importance of its domain business wane as we move into the next decade.

Why Tucows is a buy today

Tucows stock is not the screaming buy it was in the fall of 2018, but investors should seriously consider a re-entry as we move into late May. Its post-earnings dip puts shares back in the lower end of its 52-week range. Shares of Tucows had an RSI of 28 as of early afternoon trading on May 16, putting the stock in technically oversold territory.

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