Why This Tech Stock Will Continue to Crush Markets

Description

Canadian tech stocks are not as well-known as their U.S. counterparts. There is **Shopify** that has generated exponential returns and then there is **Lightspeed POS** following in its footsteps. However, there's one more Canadian tech company that has more than doubled market returns in 2019.

Shares of **Real Matters** (TSX:REAL) have returned 158% year to date. However, the stock is still trading 16% below its IPO price of $12.4. Real Matters was publicly listed on May 12, 2017.

Real Matters is a Canada-based tech company valued at $892 million. It's a provider of mortgage title and closing services in North America. The company's cloud-based platform provides insights into residential and commercial properties.

The important question is whether the Real Matters stock has enough steam to move higher in the coming months.

Real Matters stock is currently undervalued

One reason why Real Matters stock fell after its IPO was due to its falling revenue. The company reported a sales decline of 7.3% year over year in 2018. However, it will return to revenue growth this year. Analysts expect company sales to rise by 7.1% in 2019, 13% in 2020 and 20.6% in 2021.

Real Matters revenue growth is accelerating. The stock is trading at a forward price-to-earnings multiple of 42.5, which might seem high; however, the company is estimated to increase earnings at an annual rate of 56% over the next five years, suggesting the stock is undervalued by 30%, considering its long term earnings expansion.

Large addressable market

Real Markets' management remains optimistic about the company's long-term growth potential. It has has valued the total addressable market at $13 billion USD. The company continues to expand its client base and now has 60 of the top 100 mortgage lenders in the United States as customers. It has claimed to have a customer retention rate of 95%.

Its technology platform provides a competitive advantage compared to peer service providers. Real Markets aims to leverage its network management services platform to gain traction and beat market competitors, which in turn will help it widen customer base and retain clients over the long term.

Real Matters management is focused on growing residential mortgage appraisal market share and wants to disrupt the mortgage title and closing market. It aims to expand revenue via acquisitions as well.

Sales were weak in Canadian markets in the June quarter

Real Matters managed to grow sales by 42.6% in the June quarter. While appraisal sales in the United States rose 39%, title sales were up by 53%. This growth was offset by weak sales in the Canadian market which rise by 7.1%.

This revenue growth helped Real Matters grow EBITDA by a huge margin. Real Matters increased EBITDA from $0.9 million in the third quarter of fiscal 2018 (ended in June) to $10.4 million in the third quarter of fiscal 2019.

It increased EBITDA by 302.7% from $3.7 million in the first three-quarters of 2018 to $14.9 million in the first three quarters of 2019, indicating high operating leverage. Robust earnings growth for Real Matters should be a key driver of the company's stock price going forward.

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