Canada’s Next Unicorn: This Real Estate Tech Stock Could Touch $1 Billion

Description

Real estate and technology are my two favourite sectors for investing. I appreciate the steady cash flows of real estate investments as well as the thick margins and immense growth potential of technology start-ups.

Combining the two, in my opinion, is a winning formula for any investor looking to create wealth. That’s precisely what Toronto-based **Real Matters** (TSX:REAL) has managed to accomplish.

The company provides a proprietary platform that helps residential real estate appraisers and insurance underwriters judge the value of properties.

It’s a simple but critical service that helps streamline the process of offering mortgages for home buyers, transferring properties to new owners or settling property insurance claims.

Judging the value of a property is traditionally very labour-intensive and time-consuming. Appraisers have to visit sites individually, take photos, collect documentation, and collate all this data to conduct a detailed analysis for appraisal.

Technology solutions should eliminate the grunt work through automation and make the process faster.

It’s a market that Real Matters believes could be worth $13 billion. Currently worth $900 million, Real Matters is already a leader in the sector.

The stock has surged an incredible 167% since the start of the year, and another 10% jump in its valuation could cement its position as Canada’s latest technology unicorn.

Real’s closest competitor is a New York-based start-up called Bowery Valuation. This small team recently raised US$5 million in funding and has already secured a partnership with commercial real estate firm **Cushman & Wakefield.**

The fact that venture capital is flowing into the sector should be encouraging for Real Matters, which has already secured 60 of the top 100 mortgage lenders in the U.S. as clients.

But is it too late for the average investor to jump into this lucrative niche? In other words, is Real Matters now overvalued?

Valuation

Similar to most other young technology firms, Real Matters is currently losing money. During fiscal 2018, it lost US$4 million on revenue of US$281.5 million; 89% of this revenue was generated in the U.S. last year, so the company's fate is linked to the health of the American property market.

The demand for appraisals is closely linked to the volume of transactions in the real estate market, which means there's no way to predict how much Real Matter could earn next year.

For example, a correction in Canada's housing market last year resulted in a 6.2% decline in Real's revenue from the country.

A similar correction in the U.S. housing market could suppress sales and expand the company's losses next year. Furthermore, new competitors in this relatively small market could erode the company's margins.

Despite a lack of competition last year, Real managed to deliver only a 7% gross margin. Meanwhile, total revenue has expanded by a mere 13% over the past two years as the real estate market across North America corrected. Low margins, growing competition and unpredictable growth do not justify the company's hefty valuation.

Bottom line

Real estate technology should be a lucrative combination, but Real Matters' business model lacks the profitability or growth needed to justify its current valuation. Despite its stellar performance this year, I believe growth-oriented investors have better options elsewhere.

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Date
2025/09/28
Date Created
2019/09/07
Author
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