



Value Investors: You've Got to Check Out North America's Cheapest Tech Stock

Description

It's been an interesting decade to be a value investor.

These folks have been largely shut out of much of the massive stock market rally off the 2009 bottoms as they've stuck to more old school economy stocks. These companies haven't delivered nearly as much upside as [technology stocks](#).

We're now at the point where many of the world's top stocks are now tech stocks. In fact, the four top stocks on the S&P 500 Index are technology stocks, and six out of the top 10 are also technology-based. There are also hundreds of lesser-known tech companies that are doing their best to disrupt everything from banking to travel to dating.

There's just one problem. Very few of these stocks are cheap. Most trade at huge multiples as growth-hungry investors are willing to pay whatever it takes to get exposure to this sector.

There are a few cheaper tech stocks out there. I'd like to profile one today; a stock that might be the cheapest technology stock in North America. It has some warts, but also massive upside potential. Let's take a closer look.

A solid transformation

You might remember **Yellow Media** ([TSX:Y](#)) under its previous incarnation, Yellow Pages. Yellow Pages was one of the flashier income trusts in the early 2000s before the namesake product collapsed with the popularity of the internet. The company was eventually forced into bankruptcy to get protection from its creditors.

Yellow Media today has transformed itself into a digital media company, successfully diversifying away from its legacy business. It owns some of Canada's most-visited websites like YP.ca, Canada411, and Bookenda. The company also owns YP Shopwise, a mobile app that targets deals based on a user's location and preferences.

Although revenue has continued to shrink as it moves away from its legacy business, Yellow Media has done a nice job increasing the bottom line during this challenging time. Revenue shrunk to \$577 million in 2018, but adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) did creep higher, increasing from \$183 million to \$192.5 million. Cash flows from operating activities increased from \$116.5 million in 2017 to \$134.7 million in 2018.

Much of this cash flow has been earmarked for paying down the company's onerous debt. 2017 saw it able to refinance much of its debt, but at an alarming interest rate of 10%. The good news is the company has made significant progress, chipping away total indebtedness from \$489 million at the end of 2017 to \$339 million at the end of 2018. It has continued paying back debt thus far in 2019, decreasing the total debt outstanding to just \$235 million as of June 30.

Dirt-cheap equity

Although the company has taken some nice steps, many investors are still scared off by the still-declining legacy business. This has created a situation for brave value investors to step in at buy shares at an [incredibly cheap valuation](#).

We're talking extremely cheap here. In 2018, the company generated approximately \$120 million in free cash flow. The company has a market cap of \$250 million. That puts shares at just over 2 times free cash flow.

No, that's not a typo. An investor who buys in today will be paying \$8.88 per share for a company that generated more than \$4 per share in free cash flow in 2018 alone.

In fact, it's not hard to see a scenario where free cash flow increases in 2019 since so much debt is being paid off.

The bottom line

At 2 times trailing free cash flow – or just 2.5 times trailing earnings, if you prefer that metric – you will not find many stocks cheaper than Yellow Pages. As far as I can tell, it's the cheapest tech stock in North America.

At a valuation that cheap, a lot can go right. The stock can double and trade at just 5 times earnings, for instance. And investors should also be encouraged by the aggressive debt repayment schedule.

Who knows how long the stock will be this cheap. If you're interested in this opportunity, the time to buy is today.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:Y (Yellow Pages Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/07/02

Date Created

2019/11/12

Author

nelsonpsmith

default watermark

default watermark