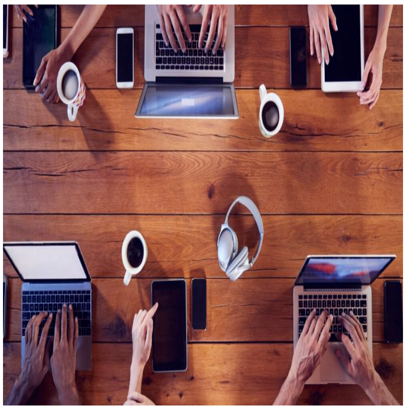

This Dirt-Cheap Internet Stock Is My TOP Technology Pick for 2020

Description

When investors think about the technology sector, their minds wander to a revolutionary new company that has the ability to change the world.

I prefer something different. I want cash flow — lots and lots of cash flow. Let other investors finance the next big thing. All I want to do is make money.

Today, I'd like to talk about a very unique tech stock, one I think has a boatload of upside. It could easily be 100-200% higher by the end of 2020. Yes, really.

But investors should be warned. It has a few warts.

Let's take a closer look.

A little old school, a little new

You might not have paid attention, but the last decade has been pretty tumultuous for **Yellow Pages** (TSX:Y).

The company was one of Canada's top income trusts before rule changes put a stop to that. Shortly after converting to a corporation, reality started to set in, and the company's high debt combined with a failing core business eventually led to a bankruptcy filing.

It had significantly less debt after the restructuring, but it still emerged with $750 million owing — plus a little over $100 million in convertible debt. Management struggled to pay back the debt, which had an initial interest rate of 9.25%. After refinancing back in 2017 — at an eye-popping 10% interest rate — management has successfully done the unthinkable and paid off this loan. The only debt outstanding today is the convertible debentures.

As you'd expect, the legacy assets aren't doing so well. The company has helped mitigate this by converting much of its business to the internet, which has helped slow the decline. The good news is, it generates a lot of cash today; including the digital assets, Yellow Pages generated $112 million in free cash flow through the first three quarters of 2019.

Annualized, that gives us projected free cash flow for 2019 of approximately $150 million. Remember, Yellow Pages has a market cap of just $256 million. Yes, it trades at less than two times free cash flow.

Perhaps you'd prefer to look at Yellow Pages from a price-to-earnings perspective. Over the company's last four quarters, it has posted earnings of $3.06 per share. That puts shares at just three times earnings.

Why is it so cheap?

There's one big reason why Yellow Pages shares are so cheap today. The company's revenue declines are pretty scary.

Through the first nine months of 2019, it generated a little over $308 million in revenue. Over the same period last year, the top line was nearly $375 million. That's a decline of nearly 18%.

It's not all scary, however. Management has done an excellent job controlling costs. EBITDA margins were over 40% through the first three quarters of 2019 compared to just over 33% in the same period last year. Usually companies with declining revenue see margins go in the other direction.

Investors should also keep in mind that the paid off debt will save Yellow Pages millions in annual interest charges.

Now that the debt is paid off, management needs to focus the company on growth. If free cash flow decreases 20% in 2020, the company will still generate $120 million in cash next year, plus this quarter's results. That money should be put to work in new acquisitions. If management hits a home run with its capital-allocation strategy, the stock could easily soar.

Investors are so pessimistic on Yellow Pages today that all it might take is a small little catalyst to send shares soaring. An acquisition or two showing the company is serious about growth could very well do it.

The bottom line

At just two times trailing free cash flow, there's no doubt Yellow Pages is cheap. But shares have been cheap for years now.

Two things should be enough to help the company take the next step — the paid-off debt and a successful acquisition or two. If management can pull off the latter, shares could easily be much higher at the end of 2020.

CATEGORY

1. Investing
2. Tech Stocks

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1. Editor's Choice

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1. TSX:Y (Yellow Pages Limited)

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