



## Forget Telus, Add This Canadian Telecom Stock to Your Portfolio

### Description

Investing in mature industries is far from exciting. The growth prospects are dwindling, sales have more or less peaked and there is little room for capital appreciation in terms of the share price.

Telecom companies are part of a mature industry. While Canada has billion-dollar giants including **Telus** that are leaders in this space, we can look at one smaller telecom company with the potential to outperform markets in 2020.

**Tucows Inc.** ([TSX:TC](#))([NASDAQ:TCX](#)) is a Canada-based internet service provider. It has two primary business segments, Network Access Services and Domain Services.

The Network Access Services business includes internet hosting, network consulting services, mobile and fixed high-speed internet access services. The Domain segment provides wholesale and retail domain name registration services and other value-added services.

### Tucows stock is trading 29% below record highs

Tucows sales had risen from USD \$190 million in 2016 to USD \$346 million in 2018, resulting in a stock price appreciation of over 300% between January 2016 and April 2019. However, analysts now expect company sales to fall by 1.2% to USD \$342 million in 2019.

Driven by this decline, Tucows investors have now lost 29% since April 2019. However, analysts expect Tucows to increase sales by 6.4% to USD \$364 million in 2020 and by 6.1% to USD \$386 million in 2021.

Further, while company earnings might fall by 21.4% in 2019, it's estimated to increase by 34.4% in 2020. Between 2020 and 2023, analysts expect earnings to rise by an annual rate of 46.5%.

Compare these metrics to the stock's forward price to earnings multiple of 38.3 and we can see that it's trading at a reasonable valuation.

## Domain business accounts for majority of sales

The domain business segment of Tucows performed in line with management expectations in the third quarter of 2019. This segment accounts for 70% of total sales. In the September quarter, Domain Services' and Value Added Services' gross margin were up by an impressive 17% year over year.

During the earnings call, company CEO Elliott Noss stated, "Our Domains business continued to perform well in the third quarter. Once again demonstrating the consistency of the business and the success of our focus on managing this business for gross margin contribution and profitability."

Driven by the Ascio acquisition, total wholesale registrations rose 2% year over year to \$3.9 million. Adjusting for this acquisition, registrations were down 4%. This decline was offset by robust gross margin growth and a renewal rate that stood at a healthy 76%.

In the third quarter, Ting Mobile's service revenue fell 0.5% year over year, while gross margin was down 6.6%. At the end of the September quarter, Ting Mobile had 166,000 accounts and 294,000 subscribers.

The company's fiber broadband services known as the Ting Internet is growing at a fast pace and will be a key driver of sales in 2020 and beyond.

## The verdict

Tucows is the second-largest domain name registrar in the world. It has over 24 million domains under management with 1.5 million transactions every month. In the mobile segment, Ting's average subscriber bill stood at \$38 and this business ended the quarter with a gross margin of 60%.

The growing demand for high-speed internet holds Tucows in good stead. The residential broadband usage is growing at a rate of 21% year over year in terms of monthly downloads and desired customer speeds. The company is focused on providing gigabit speeds over fiber-to-the-premise networks.

Tucows has a stable domain business and [its mobile business is declining](#). While the company's fiber-optic venture is not profitable, the company is betting on future growth and investments to gain traction.

Analysts covering Tucows continue to remain bullish on the stock and have a price target of USD \$76.7, which is 19% above the current trading price.

### CATEGORY

1. Investing
2. Tech Stocks

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1. NASDAQ:TCX (Tucows)
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