An Extremely Battered Stock to Buy Before it Corrects to the Upside

Description

The markets, on average, may be expensive, as suggested by recent moves made by Warren Buffett, but that doesn't mean there's no value to be had anywhere you look. The Canadian market in particular holds stocks of wonderful businesses that are seldom in the limelight of the financial media.

When such businesses have fallen on hard times, the odds of having a sizeable upside correction increase substantially at some point down the road, given the fact that many Canadian stocks are lesser known, lesser traded (relative to U.S. stocks), and are thus less efficiently priced by Mr. Market.

Consider **Tucows** (TSX:TC)(NASDAQ:TCX), a Canadian IT services and telecom company that's a cash cow of a business with encouraging long-term growth traits that are severely discounted by analysts on the Street.

The stock got clobbered last year, with the stock plunging nearly 50% from peak to trough. While it's easy to throw in the towel on a "boring" domain name registrar that few investors have heard of, I'd urge investors to consider the ridiculously low multiple they're paying for the calibre of stable long-term growth they're getting.

Boring tech can be beautiful

You see, Tucows isn't just another no-growth domain name registrar that's poised to face margin pressures amid rising competition in a severely saturated market. While the domain services business, which accounts for 72% of revenues as of the end of 2018, isn't nearly as lucrative as it used to be, it's still a cash cow that can act as a solid foundation, as Tucows looks to reinvest in its more encouraging network access service business, which accounts for around 28% of revenues.

Domain names are a dull business, and they're not going to experience a sudden surge in demand like during the tech boom, so naturally, one would think Tucows, the second-largest domain name registrar in the world, is a dud that's to be ditched.

If you look at the domain registrar business not as a source of growth, but as a stable cash flow stream (a digital REIT if you will), the Tucows story becomes that much more interesting.

Tucows has been investing a huge chunk of cash in more lucrative telecom services (like fibre and mobile), and that's going to be the company's major source of growth moving forward. The telecom services growth outlet is still small in comparison to the low-growth domain business, though. And with mobile subscribers jumping ship as a result of cutthroat competition, some folks out there think Tucows's glory days are long over.

Doomed to underperform?

Fellow Fool contributor Vishesh Raisinghani thinks that Tucows is doomed and believes that the company's venture into mobile and fibre is unlikely to put the company back on the map. Vishesh sees the domain business as a significant drag and the venture into telecom services as an "expensive" endeavour that's unlikely to results in substantial economic profits.

Sure, telecom services may be an "expensive" and "competitive" market to compete it. But Tucows isn't trying to spread itself too thin by trying to move in on the turf of its bigger brothers in the space. Tucows is still a small fish in comparison to some of the deeper-pocketed peers, so it's implementing a smaller-scale strategy by carving out a smaller, bite-sized chunk of the market, and I think that's a strategy that will work as we transition into the new generation of telecom tech.

Foolish takeaway

Tucows found itself between a rock and a hard place over the past year, but I'm still a believer that there exists a price where every stock becomes a buy, and at around $70, I think Tucows is such a stock. The stock currently trades at just 1.7 times sales and 6.7 times book, which is too low a price to pay for a cash cow that's investing heavily in areas of the market that could help reinvigorate growth.

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