



## 1 TSX Tech Stock That Can Move Higher in 2020

### Description

Back in December 2019, I had asked investors to stay away from **Morneau Shepell** (TSX:MSI) during a recession. It was driven by fear that this human resources-based tech company would experience lower demand in an economic downturn. However, once COVID-19 hit the world, it was time for a rethink. On March 18, 2020, I'd said [MSI was a good buy](#) since its tech prowess would hold it in good stead as working from home becomes the norm around the globe. The stock was trading at \$28.90 then.

The price is now \$31.10, an increase of almost 10% in less than two months. But can the tech stock move higher in the next few months and crush the broader market?

### A look at Q1 results

Morneau Shepell recently reported its results for the first quarter of 2020, and the numbers are very good. Revenue increased by 18.7%, or \$38.3 million to \$243 million. Adjusted EBITDA increased by 5.8% to \$47.3 million versus \$44.7 million in the same period of 2019. The Mercer acquisition has played a major role in this boost. The company's cash flow was \$27.4 compared to \$24.1 million in the prior-year period.

However, these numbers are not the reason why I am bullish about MSI. The positivity comes from this statement made by Grier Barrett Colter, CFO and executive VP of MSI during the earnings call last week that states:

"We're continuing to pay our suppliers on time. We're continuing to pay our people in full. We've made no cuts on that front. And we're continuing to invest in CapEx as planned for the future. So we've made no change to our CapEx plan. And we continue to go full on those investments for the future."

When a company says that it is going to continue with capital-expenditure plans and has not made any cutbacks, even during these unprecedented times, it gives investors a lot of confidence.

## How the tech company is combating COVID-19

MSI's tech-first approach has ensured that its sales funnel is strong. There are been certain aspects of its in-person business that were halted immediately, like in-person training, child support solutions, pension consulting, and economic onsite pension administration work. But it has more than made up for it with its tech solutions:

- In March, the province of Manitoba came on board to use the AbilitiCBT, the company's internet-based cognitive behavioural therapy program, to all residents over the age of 16 who suffer from anxiety caused due to the pandemic.
- In May, Ontario followed suit with the iCBT program for residents over 16.
- A Fortune 100 construction equipment manufacturer doubled the number of employees on the LifeWorks program for employee-assistance services.
- A large client from the energy sector upgraded to the LifeWorks program and added employees from 22 countries in North America and the Caribbean to it.

The number of employees on MSI's LifeWorks platform has grown from 2.2 million to 2.8 million. As companies across the world struggle to support their employees' mental health in these trying times, MSI's solutions seem to be the right fit. That said, the company has "entered into an amended credit facility agreement" where it obtained an additional \$100 million of committed capacity for one year.

Morneau Shepell has made a slight adjustment to its 2020 EBITDA guidance. From its earlier target of 20.5%, the EBITDA estimate is now revised downward to 20%. When you add the forward dividend payout of 2.43%, you realize that this is a good stock to hold in the current environment.

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