Bargain Hunters: Now Is the Time to Buy This Lesser-Known Growth Stock

Description

The TSX Index has been a paradise for bargain hunters amid the sharp rise in volatility. Although the markets have mostly recovered, there's still tonnes of value to be had. You just need to know where to look. This piece will have a closer look at a lesser-known stock that I believe possesses a reasonable margin of safety at this market crossroads.

Bargain hunters: Meet Tucows

So, if you'd rather swing at the solid pitches that Mr. Market throws your way rather than being a wallflower, now is as good a time as any to pull the trigger on **Tucows** (TSX:TC)(NASDAQ:TCX), a promising mid-cap Canadian company you're likely to have forgotten about but is totally worth revisiting.

Tucows is a pretty boring name when it comes to the world of IT. You may know it as a domain registrar that's fallen under pressure of late thanks to the rise of competitive forces like Namecheap that are driving down the price of domain names (and various other services).

While the business of domains is not nearly as lucrative as it was during the dot-com boom, Tucows's domain business as a "utility-like" generator of relatively stable cash flows. In a way, Tucows collects a form of "digital rent" from its clientele regularly.

Tucows is doomed? Not so fast

Fool Vishesh Raisinghani thinks that Tucows is doomed, because the domain business is saturated, mobile is too competitive an arena to get into, and fibre is too expensive.

While the domain business leaves a lot to be desired in terms of growth, it *is* a relatively stable cash flow stream that can be used on higher-ROIC endeavours, such as those pursued by Tucows's subsidiary Ting Mobile.

Yes, both businesses of mobile and fibre are crowded industries with high costs of entry, but that doesn't mean the industry is not worth delving into, especially with the world turning the page on the last-gen of telecom tech.

Why Tucows's growth story is worth buying into at the right valuation

When you consider that Tucows has the management expertise to generate sustainably high ROICs by concentrating on specific markets of interest rather than spreading itself too thinly across broad geographies like the big-league telecoms, I'd say Tucows's foray into mobile and fibre is a worthy one, as it looks to take a sliver of economic profits from the booming industry.

For Tucows, even a sliver of the U.S. telecom pie is enough to move the needle for TC stock. And with a stable cash flow stream in the domain business to fall back on, I'd say Tucows is a misunderstood company that many are underestimating.

To make the Tucows story even sweeter, the stock is trading at a wide discount to historical averages. At the time of writing, TC stock trades at 1.8 times sales, 13.6 times cash flow, 6.4 times book, and 14.1 times EV/EBITDA, all of which are below their five-year historical averages of 2.1, 20.9, 9.9, and 16.6, respectively.

Foolish takeaway for bargain hunters

The company's operating performance has been under pressure in recent years, with ROICs falling drastically. As Tucows overcomes the headwinds, I think the company can sustain a high double-digit ROIC alongside double-digit, top-line growth. Once it does, TC stock will command a much higher valuation, perhaps a premium to that of its averages.

For now, Tucows will continue to be a roller-coaster ride of a stock, fluctuating between $65 and $85. If you can buy the stock at the lower end of the range, you'll nab a greater margin of safety and a slightly higher yield, as you wait for the intriguing stock to turn the page on its multi-year consolidation. With shares in the middle of the range, I'd look to start scaling into a position today if you consider yourself a bargain hunter.

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