Real Matters (TSX:REAL) Is up Over 130%: Is There More Upside?

Description

The outbreak of COVID-19 has disrupted many businesses across the world. However, some businesses not only have managed to stand tall but also thrive in this challenging period. One such company is **Real Matters** (TSX:REAL), which supports mortgage and insurance companies through its technology and network management solutions.

After delivering a stellar return of over 270% last year, Real Matters is trading over 135% higher this year. It has easily outperformed the S&P/TSX Composite Index since the beginning of last year. So, after such a massive rally, the big question that arises would be, what's next? I believe there is more upside for Real Matters's stock price, given its robust outlook.

Growth drivers

Real Matters provides title and closing services for mortgage lending companies in the United States. It also appraises residential properties. Meanwhile, in Canada, it focuses on residential property appraisals and insurance inspection services.

For the first two quarters of this fiscal year, Real Matters had reported impressive revenue growth of over 70%. The increase in its market share, acquisition of new clients, and increased volumes drove the company's revenues. The company leverages its proprietary technology platforms by combining its relationship with field professionals to provide faster and reliable service to its clients, giving the company a competitive edge.

Meanwhile, revenue growth has positively impacted its margins. The company's EBITDA margin improved from 29.4% to over 40%.

Amid the outbreak of COVID-19, the central banks of both the United States and Canada had slashed their interest rates. The decline in interest rates has increased refinancing activities, thus driving the need for Real Matters's services. Meanwhile, the purchase transactions have slowed down.

So, with the economic indicators still weak, I believe the central banks will not be in a hurry to raise interest rates. Also, the company's management expects its new purchase transactions to improve post-COVID-19. So, I believe the company's near-term as well as its long-term growth prospects look robust.

Real Matters targets to acquire 15-20% of the market share in the United States appraisal segment by the end of the next fiscal year. Meanwhile, it targets 1-3% in the United States title segment.

Real Matters's valuation looks attractive

Despite the impressive growth potential, Real Matters is trading at attractive valuation multiples. It trades at a forward price-to-earnings multiple of 33.3, which is lower than its average multiple of 38.9 for the past three years. Meanwhile, the industry average stands at 33.4.

The company trades at a higher EV-to-EBITDA multiple of 22.4 compared to the industry average of 20.8. Similarly, its price to cash flow stands at 28.7, which is higher than the industry average of 25.5. I believe the company commands a premium, given the steep jump in its refinancing business amid the pandemic.

Meanwhile, Real Matters's balance sheet looks strong, with its cash and cash equivalents at US$89.1 million. The company can also avail of an additional credit facility of US$40 million.

Bottom line

I believe the second half of this year to be highly volatile, with the markets having recouped a majority of their losses, while the economic indicators are still weak. Despite the uncertainty, Real Matters presents an excellent investment opportunity, given its growing addressable market, competitive advantage, and expansion of its margins. The company will report its third-quarter earnings next week. So, I believe investors should buy the stock before that, as it could beat expectations in its third quarter.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:REAL (Real Matters Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date
2025/08/28
Date Created
2020/07/21
Author
rnanjapla