Dye & Durham (TSX:DND): Canada's Next Big SaaS Tech Success?

Description

Software-as-a-Service (SaaS) has been wildly popular with investors looking for lucrative long-term bets. Technology companies focused on this business model have created recurring streams of immense cash flows. Consequently, growth-seeking investors have billions into these stocks, pushing their valuations to a record high.

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Unfortunately, most of the best SaaS stocks are listed in America. Canadian investors have a very small pool of potential SaaS targets. Last week, this pool expanded with the initial public offering of **Dye & Durham** (TSX:DND). The stock doubled on its first day of trading, indicating relentless demand for high-margin, low-risk enterprise software stocks like this.

Here's a closer look at Dye & Durham's underlying business and its fundamental valuation.

SAAS stock

The Vancouver-based company provides cloud-based software for legal professionals and large legal firms. The software helps them keep track of data, store customer details, share files and comply with local corporate data regulations. In other words, it's the back office for most legal teams.

In fact, the 20 largest legal firms in Canada all use Dye & Durham's software. According to their latest filing, their average client has used their services for over 16.6 years. The platform currently has 25,000 active accounts, with a 2% churn rate and 109% dollar-retention rate over the past year.

That level of market share and customer retention is unprecedented. By focusing on a relatively underserved niche, D&D has managed to create a robust and thriving business.

D&D Valuation

At its currently market price ($13.4), the company is worth $555 million. Over the past 12 months, the company reported $66.45 million in revenue and $30 million in earnings before interest, taxes, depreciation and amortization (EBITDA).

This means the stock is trading at a price-to-sales ratio of 8.35 and an enterprise value-to-EBITDA ratio of 6.9. Those metrics are perfectly fair for a company that's reporting nearly 70% in annual sales growth. At that pace D&D could grow into and beyond its current valuation within just a few years.

As my Fool colleague Joey Frenette noted, most SaaS stocks trade at significantly richer valuations . Canada's most popular SaaS stocks are currently trading at P/S ratios of between 20 and 60.

In short, D&D looks like an underrated growth stock trading at a reasonable valuation. The stock is down marginally since its IPO last week, which makes it even more attractive now. Keep an eye on it.

Foolish takeaway

A combination of high-margins, recurring revenue and stickiness make software-as-a-service providers some of the best growth stocks on the market. However, quality SaaS stocks are rare, which is why most of them are overbought and overvalued.

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Recent listing Dye & Durham seems to have slipped under the radar. The stock is still trading at reasonable valuations, despite reporting double-digit revenue growth and a solid portfolio of clients.

The company's underlying fundamentals and grip on the legal market niche could make it one of the best SaaS stocks in the country. Keep an eye on it.

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Date
2025/07/26

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2020/08/01
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