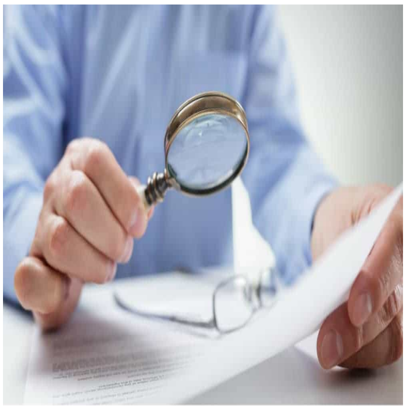

Is Real Matters (TSX:REAL) a Buy After its Stellar Q3 Earnings?

Description

Amid high volatility in the broader equity market, **Real Matters** (TSX:REAL) has stood tall, delivering an impressive 140% return this year. On Thursday, its stock price hit an all-time high of $31.5 on the back of better-than-expected third-quarter performance. It surpassed analysts' expectations by a considerable margin. Let's look into its third-quarter numbers in more detail.

Strong year-over-year growth

Driven by strong performances in its title and appraisal segments in the United States, Real Matters's consolidated net revenue grew 52.7% to US$43.9 million, outperforming analysts' expectations of US$38.6 million. Also, its adjusted EPS increased 50% year over year to US$0.15.

Amid the outbreak of COVID-19 in March, the federal banks in the United States and Canada had lowered the interest rates. The decline in interest rates boosted the refinancing activities, increasing the need for Real Matters's services.

During the quarter, the revenue from its title segment in the United States grew by 98.8%, while the appraisal segment reported 21.5% growth. The acquisition of new clients, market share gains, and higher volumes drove the company's sales. The company added three new lenders in the appraisal segment and four new lenders in the title segment during the third quarter.

However, the company's net revenue from Canada fell by 36.5%. Its insurance inspection services declined in April and May, as its clients put the transactions on hold amid the outbreak. Meanwhile, the segment saw a meaningful recovery in June.

In the third quarter, Real Matters's adjusted EBITDA margin expanded by 11.5% to 47.6%. During the quarter, it serviced more of high-margin mortgage origination volumes and fewer low-margin home equity and default volumes, which led to an expansion in its EBITDA margin.

Liquidity and valuation

The strong third-quarter performance helped Real Matters in strengthening its balance sheet. It increased its cash and cash equivalents by US$20.4 million during the quarter to US$109.5 million. The company was able to transfer 97% of its EBITDA on to the balance sheet.

Despite the surge in its stock price, Real Matters's valuation still looks attractive. Currently, the company trades at a forward price-to-earnings multiple of 31.8, which is lower than its average of 38.3 for the past three years.

Outlook

Amid the increase in refinancing activities, lenders are facing performance and scalability issues with their existing vendors. So, this has created an opportunity for Real Matters to acquire new clients and increase its market share. Also, the company is focusing on accelerating the sales cycle with its top 100 lender targets.

With economic indicators still weak, the federal banks will not be in a hurry to raise the interest rates soon. So, I believe that the refinancing activities to be healthy over the next several quarters, driving Real Matters's sales. To support the increased demand for its services, the company had hired 56 new employees in the third quarter.

Meanwhile, the company's management is focusing on expanding its appraisal segment to acquire a market share of 15-20% in the United States by the end of its next fiscal year. For the title segment, the company has targeted 1-3%.

Bottom line

Real Matters combines its proprietary platforms and a healthy relationship with its field executives to deliver fast and reliable service to its clients. So, this competitive advantage and a favourable market condition amid low interest rates could act as a tailwind for the company in the long run.

So, I believe the rally in Real Matters is not over. I expect the company's stock to hit triple digits in the next two to three years. So, investors should buy the stock right now for higher returns.

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