



This Stock Is a Glaring Opportunity

Description

Whenever you look at a list of the top Canadian Dividend Aristocrats or today's popular growth stocks, there is a good chance that those companies are listed on the **Toronto Stock Exchange**. These companies all pay fees to be listed on the exchange. Did you know, you can buy shares of the company that operates the **TSX**? In this article, I will be discussing why **TMX Group** ([TSX:X](#)) could be an [interesting investment](#).

What does TMX Group do?

TMX Group owns and operates the exchanges that are used to trade securities and derivatives in Canada. Its subsidiaries, the Toronto Stock Exchange and **Toronto Venture Exchange**, feature many of the companies that Canadians invest in. The company also operates two smaller exchanges, the Montreal Exchange and Boston Options Exchange, which primarily handle derivatives and options.

TMX Group's business model features [four high margin branches](#). Capital formation (49% operating margin), Equities and fixed income trading (53%), derivatives trading (53%), and global insights, solutions, and analytics (66%).

In the first half of 2020, the company's total revenue was \$438.0 million. As of June 2020, there are 3,266 securities issuers listed on one of the company's exchanges. This includes 130 new listings on either the TSX or **TSXV** in the first half of 2020. The securities listed under the TMX Group umbrella total a \$3.0 trillion market cap.

How has its performance been?

TMX Group has shown an increase of 122% in its revenue from 2016 (fiscal year) to 2020 (last twelve months). Currently, 52% of the company's revenue is recurring and 33% comes from outside Canada.

This strong growth and stability in its revenue has been well-received by investors, as TMX Group stock has seen a 24% appreciation in its share price year-to-date. Over the past five years, the

company's stock has gained 188.25%.

TMX Group is not currently listed as a Canadian Dividend Aristocrat; however, it is on the verge of making the list. The company has raised its annual dividend for the fifth straight year, which suggests that the company will be added to the prestigious list next year. TMX Group has a forward dividend yield of 2.05% and a reasonable payout ratio of 59.91%.

Where can we expect growth in the future?

Most growth from TMX Group is expected to come organically. As more securities list on its exchanges, the company will continue to accrue an increasing amount of recurring revenue. The company's global insights, solutions, and analytics business continues to grow as well.

In 2018, this segment made up 35% of the company's annual revenue. So far in 2020, this segment has accounted for 37%. While the growth is not astronomical, it should be noted.

It's also notable that TMX Group does make acquisitions when it finds a company that would benefit its operations. In 2017, the company made a big move by acquiring Trayport. This is the primary network and data platform used by European wholesale energy markets. So, while acquisitions may come less frequently, the company's management does look for these opportunities.

Foolish takeaway

This is likely one of the less exciting growth stocks I have featured on The Motley Fool so far. However, the opportunity in TMX Group is quite compelling. As more companies turn to its exchanges, the company will keep growing.

If you are looking for a lower-risk growth company to add to your portfolio, I would suggest taking a good look at TMX Group.

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