Dye & Durham (TSX:DND) Stock Retracts 21%: Should You Buy Now?

Description

It’s always great to have some quality tech stocks in your portfolio, as they often lead to higher returns and outperform the benchmark index. Also, in the post-COVID-19 world, technology is one sector I believe is likely to play a more significant role in all aspects of our lives and could continue to outperform other industries, thanks to the growing demand for the products and solutions based on new-age technologies like cloud, AI, and analytics.

While the prospects for the **TSX**-listed tech companies look bright, tech stocks have witnessed a fair amount of selling in the recent past. Take **Dye & Durham** (TSX:DND) stock, for instance.

Dye & Durham, through its cloud-based tech platform, provides critical information to legal and business professionals. Shares of Dye & Durham quadrupled from its IPO price since listing on the Toronto Stock Exchange on July 17, thanks to its robust financial performance over the past several years. However, the temporary closure of several courthouses in Canada amid the pandemic weighed on its recent quarterly performance and, in turn, its stock.

Shares of Dye & Durham have retracted nearly 21% from its peak. So, should you rush to buy its stock at the current levels?

Is growth on the horizon?

While the temporary challenges stemming from the pandemic remained a drag on its financials, Dye & Durham has multiple vectors for growth that are likely to support its business’s future success. One of them is the company’s ability to integrate acquired companies.

Since 2013, Dye & Durham made 14 acquisitions, which have been crucial to its success. The strength in its base business and these acquisitions has helped the company drive revenues and adjusted EBITDA at a breakneck pace.

Dye & Durham's top line (from FY16 to FY19) has grown at a CAGR (compound annual growth rate) of 71%. Meanwhile, its adjusted EBITDA increased at a CAGR of 136% in the same period. Despite challenges in the fourth quarter, its revenues increased by 49% in FY20, which is encouraging.

Besides acquisitions, Dye & Durham benefits from strong organic growth opportunities. It has a large (+25,000 active customers) and a diverse customer base (no one customer accounts for more than 2% of its revenue) with significant room for further growth. Also, its implementation of a monthly subscription offering and focus on creating a sustainable SaaS revenue stream is likely to support its top line and add stability.

Dye & Durham's broad penetration into blue-chip customer base, low customer churn rate (about 2%), and higher average tenure (about 16.6 years) of its top 100 clients suggest that it could continue to post strong financial numbers.

Final thoughts

The retracement in Dye & Durham stock presents a good buying opportunity for long-term investors. With the easing of lockdown measures and reopening of the courthouses, Dye &Durham's revenues are expected to return to the growth trajectory in the coming quarter.

With its resilient business model, large addressable market, accretive M&A pipeline, and experienced leadership team, Dye & Durham stock could generate multi-fold returns for its investors.

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