Up 1,027% Within 4 Months: Can This Recent Tech IPO Stock Double Your Money?

Description

Early investors in recently listed **The Real Brokerage**'s (TSXV:REAX) stock have enjoyed outsized returns within four months. A tech-powered innovator in the U.S. real estate space, REAX's share price has risen by 1,027% since the brokerage firm listed on the TSX Venture exchange in June 2020. Could you still buy shares in this recent tech IPO and double your money?

Real Brokerage is a multi-bagger stock

Real Brokerage is a fast-growing tech-powered real estate brokerage firm revolutionizing the U.S. housing market. The company provides real estate agents with a turnkey platform to run their businesses, using mobile technology to deliver service without the need for physical offices. Significant savings on overheads thus allow the broker to pay higher commissions to agents.

The $290 million firm is not exactly a recent initial public offering (IPO) stock. It went public after being acquired by a listed capital pool company this year. Shares started trading on the **TSXV** on June 12, with initial trades closing at an average price of $0.18 per share.

REAX's stock price has rallied since June. Shares trade at $2.03 apiece today (October 26) — over 11 times the listing price. The big question is whether you can expect to "only" double your investment in the tech stock if you buy at today's price.

Well, no one can answer that question with reasonable certainty, but like most North American tech IPO stocks during the COVID-19 pandemic, investors have been sold into the company's growth opportunity.

Real Brokerage's massive growth opportunity

Real Brokerage is disrupting a US$70 billion market that has been slow to embrace technology for decades. Here are some interesting U.S. housing market statistics from the National Association of Realtors to ponder on:

- The United States had about 106,548 real estate brokerage firms in 2017;
- In a 2018 survey, about 48% of U.S. real estate firms cited keeping up with technology as one of their biggest challenges for 2019 and 2020;
- Before COVID19, 5.34 million existing and 682,000 newly built homes were sold in 2019;
- About 89% of home buyers purchase their home through an agent, up from 69% in 2001;
- There are two million active real estate licensees in America;
- 87% of realtors are independent contractors.

The company's technology offers it a massive opportunity to disrupt the U.S. housing market. It operates in a fragmented market with a few large operators like **Zillow**. Charging no monthly fees, offering high splits, and lucrative revenue-sharing deals to independent realtors could win many realtors over.

Perhaps going public was a growth catalyst for REAX. Last month, the company expanded its menu of agent incentives by announcing equity compensation opportunities that could exponentially increase its agent count over the next few months. These incentives include the payment of 5% to 10% of agent commissions in stock with further grants of 25% to 50% worth of shares a year later "*at no additional cost to the agent*."

Growing the agent count is a key winning ingredient for the business. The stock incentives program is a significant competitive tool. Most of REAX's closest competitors are private small businesses that can't match such an offering to employees and independent contractors.

Can REAX stock double your money?

This is a good question that's challenging to address for good reason.

The truth is, Real Brokerage could grow its business exponentially if it signs up thousands of independent realtors across the United States. Its latest stock incentives preserve cash, but they exacerbate shareholder dilution.

Most noteworthy, the stock is speculatively valued and could be overpriced right now. We have a very limited history of the business to judge its execution excellence. With time, revenue growth could justify share price growth, but what if history repeats itself?

As far as history goes, the business had a negative equity balance on June 30. A US$16.6 million deficit from prior net losses has already wiped out the book value of shareholders' equity in the firm. It doesn't help that revenue during the first six months of 2020 was down by 33% from 2019 levels due to the coronavirus pandemic. Home buyers are reportedly fleeing congested cities, yet the company's business is concentrated in highly populated areas.

As a fundamentals-driven Foolish investor, I would watch on the sidelines for now and wait for the numbers. They should better start looking good!

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