Why WELL Health (TSX:WELL) Stock Surged 14% This Week

Description

Medical technology company **WELL Health Technologies** (TSX:WELL) has had an incredible year. The stock is up 420% from last Christmas and has surged another 14% just this past five days.

For early investors, this has been one of the most lucrative opportunities on the Canadian stock market this year. However, the stock seems to be performing exceptionally well in recent weeks. Here's why momentum seems to be building up.

Lockdown winter

Vast swathes of the country are under severe lockdown and families remain confined to their homes. While essential services such as pharmacies and clinics remain open, families could turn to virtual clinics and telehealth services to be cautious, driving adoption for WELL Health's VirtualClinic+ earlier this year.

Users on the platform jumped tenfold as more people adopted this convenient technology. Now, the company offers more services and has even entered the U.S. market. As lockdowns persist, adoption could continue at this pace.

Rival companies emerge

It isn't just WELL Health stock that's been outperforming this year. American rivals **Teladoc** and Livongo had a great year too. In fact, they both merged in October. A month earlier, **Amwell**, another telehealth company, went public on the **New York Stock Exchange.**

Here in Canada, **CloudMD** listed on the **Toronto Venture Exchange** in June. While the emergence of these rivals magnifies the pressure on WELL Health, it also offers investors a frame of reference to value the sector. That makes WELL Health's relative valuation more robust.

Seeing capital pour into the sector vindicates the business model. There is certainly enough demand for virtual clinics and online pharmacies that even Jeff Bezos is getting involved, giving investors confidence that companies like WELL Health are fairly valued when compared to its peers.

WELL Health stock valuation

Currently, WELL Health stock is trading at an all-time high of $8.12. That implies a market capitalization of $1.3 billion. Meanwhile, the company generates revenue at an annual run rate of $68 million.

Assuming the company can expand revenue next year at the same pace as it has this year, I believe the run rate could be $130 to $150 million by next Christmas. That means WELL Health stock is trading at a *forward* price-to-sales ratio of 8.7 to 10. I believe that is fair for a company with gross margins above 38% and triple-digit growth prospects.

Bottom line

WELL Health stock has had an incredible run this year. The company graduated from the Toronto Venture Exchange to the main board in January while it was still an obscure little medtech firm. Now, WELL Health is arguably one of the most popular tech stocks in the market.

The fact that we're still living through a global health crisis and are confined to our homes means telehealth should see more traction in the next few months. Meanwhile, the emergence of serious competitors gives us a frame of reference for WELL Health's valuation.

In short, WELL Health seems like a fairly valued growth opportunity for the foreseeable future.

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Date
2025/07/23
Date Created
2020/12/24
Author
vraisinghani