ALERT: Canada's Best Technology Stock Is Cheap

Description

EXFO (TSX:EXF)(NASDAQ:EXFO) provides communications service providers (CSPs) as well as data centre, cloud, and web-scale operators with analytics solutions to ensure the smooth deployment, maintenance, and management of next-generation networks. The company forges strong relationships with network equipment manufacturers (NEMs) and optical equipment manufacturers to develop a deep expertise in a very specialized field. The company was founded in 1985 in Quebec City, Canada.

Product differentiation

The company's key differentiation comes from combining intelligent, automated, and cloud-based test and monitoring solutions with real-time analytics to deliver superior network performance, service reliability, and subscriber insights. EXFO is a global leader in optical testing and among the top five suppliers of monitoring and analytics solutions for the communications industry worldwide.

Unique assets

The company has a unique blend of hardware equipment, software, and services that accelerates digital transformations related to fixed and mobile network deployments. EXFO targets high-growth market opportunities that enable customers to increase bandwidth capacity and improve quality of experience on network infrastructures. Optical, transport, and copper test solutions make up the company's test and measurement (T&M) product family.

Attractive valuation

The company has a price-to-book ratio of 1.67 and market capitalization of $304 million. Debt is very sparingly used at EXFO, as evidenced by a debt-to-equity ratio of just 0.16. The company has depressed performance metrics with an operating margin of (1.09)% and a return on equity of (3.38)%.

Over the past several years, EXFO has enhanced the company's competitive position in the

communications test, monitoring, and analytics markets through acquisitions of transport and wireless test companies, and an analytics software company. EXFO has benefited from ongoing fibre buildouts and cloud-native network deployments.

Sustainable growth strategy

The company's long-term goal is to become the global leader in the communications test, monitoring, and analytics markets. Globally, digital transformations are taking place throughout the communications industry to cope with surging bandwidth demand and the need to better monetize networks. Consequently, optical component manufacturers are making considerable investments to modernize network infrastructures, and EXFO is well positioned to gain market share.

The company's growth strategy focuses on internal investments and acquisitions in the field of fibre, 5G, and cloud-native networks. EXFO should be able to expand the company's market share in the fast-growing 400G and 800G lab and manufacturing test markets. Given a strong need for fibre deployments, the company should be able to take advantage of the surge in demand in optical testing in 2021.

Exposure to high-growth businesses

In 2021, the ramp up in order momentum for the company's troubleshooting and monitoring solutions should enhance EXFO's profitability, as mobile network operators begin migrating to 5G standalone and cloud native architectures. Recently, the company secured multi-year, multi-million-dollar service assurance contracts with five new customers.

EXFO's troubleshooting and monitoring solutions provide end-to-end visibility of 5G and cloud-native networks. Customers on a global basis use the company's test, monitoring, and analytics solutions to enable networks to perform optimally. In 2020, EXFO's top customer accounted for 9% of the company's sales, and EXFO's top three customers represented 18.1%.

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