WELL Health (TSX:WELL) Stock: Why I Bought the Dip

Description

For the first time in over a year, I added to my position in **WELL Health Technologies** (TSX:WELL). WELL stock has been a top performer during the pandemic. However, investors seem to be rotating out of telehealth stocks along with the rest of the tech sector as the pandemic is gradually resolved.

This rotation overlooks the fact that the company is poised for substantial growth, even in a post-pandemic world. This apparent disconnect creates opportunity for investors looking to make a contrarian bet. With that in mind, here's a closer look at my reasons for adding exposure to WELL stock.

Growth potential

Much of WELL's growth has been driven via acquisitions. The company identifies and assimilates targets that enhance the core portfolio. Over the past year, the team has added key acquisitions that have expanded the core electronic medical records (EMR) offering.

Other acquisitions such as ExcelleMD, Cycura, Insig and DoctorCare have given the team an expanded network of clinics in Quebec, a telehealth service, a back office billing service, and cybersecurity capabilities.

The most important acquisition, however, was that of Circle Medical. This corporate action was completed last year and should allow WELL to greatly expand exposure in the U.S. throughout 2021.

After raising cheap debt and more capital from marque investors like Sir Li Ka-Shing, WELL Health has enough firepower to sustain this pace of acquisitions. Fortunately, the pullback in the tech market should lower valuations for them.

Tech pullback

Publicly traded technology stocks have suffered a massive plunge in recent weeks. WELL Health hasn't been immune to this shift in sentiment. WELL stock has lost 24.4% of its market value since late February.

Investors are concerned about rising interest rates, inflation and the bloated valuations in the tech sector. If this correction continues, it should seep into private market transactions too. Software and healthtech startups could see venture capital evaporate, which lowers the bar of entry for strategic acquirers like WELL Health.

WELL stock valuation

Back in November, I dissected WELL Health's third-quarter report, which suggested that annualized revenue was approximately $68 million. I argued that a price-to-ARR ratio of 17.5 was historically high but perfectly aligned with the rest of the tech and software sector.

Since then, the irrational exuberance for tech stocks has faded. However, WELL Health has added several key acquisitions that have pushed its annualized revenue run rate (ARR) to roughly $300 million. That implies a price-to-ARR ratio of 3.8 at WELL stock's current market price.

In other words, WELL Health has expanded rapidly, but the stock price has declined, creating the perfect opportunity for long-term investors to add exposure.

Bottom line

WELL Health's stock valuation has drifted lower, just as revenue is about to skyrocket due to completed acquisitions. The team could accelerate acquisitions, as investors rotate away from the tech sector. That creates an opportunity for long-term investors to add exposure. That's why I bought the dip today.

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