



The Hot Real Estate Market Unlocks Value in This Software Stock

Description

Real estate has never seen such supply-and-demand pressures before. The rising costs of lumber and building materials have slowed down the construction of new homes. Meanwhile, record-low interest rates have increased purchasing power. Unsurprisingly, the average house in Canada now costs much more than it did last year.

Across the nation and across property types, prices are up. Units face bidding wars as first-time buyers compete with deep-pocketed institutional investors to grab any piece of real estate available. This historic bull market should have a positive impact on real estate software provider **Real Matters** ([TSX:REAL](#)).

Ontario-based Real Matters provides a cloud-based platform to manage all the backend processes that are involved in a real estate transaction. This includes appraisals, insurance inspections, title search, and mortgage closings. The company's operations are spread across North America, which is experiencing an unprecedented rise in real estate transactions right now.

Real Matters stock surged to an all-time high last year but has since tumbled by roughly 47%. It's now trading at roughly the same level as it did in May 2020. The stock has underperformed, despite its impressive first-quarter and second-quarter results.

Impressive financials

Real Matters remains well positioned to continue benefiting from the record-low interest rates that continue to fuel transaction activities in the real estate industry. The company's appraisal, title, and mortgage closing services in North America have been booming throughout the past year.

In the second quarter, sales were up 29.8% to \$46.7 million, as adjusted EBITDA increased 30.2% to \$19 million. The impressive results were mostly driven by higher volumes and margin expansion in the United States. For the full year, analysts expect Real Matters to post a 13.9% increase in sales to highs of \$185 million.

Valuation

After the recent pullback from all-time highs, Real Matter is fairly valued, going by the price-to-sales multiple of 2.9. That's relatively much lower than other comparable Software-as-a-Service (SaaS) stocks. Analysts have a [\\$20.4 average price target](#) on Real Matters, which implies 18% upside potential from current levels.

While the company does not pay a dividend, it remains well positioned to generate significant shareholder value if it can sustain this momentum going forward. Additionally, the recent pullback has provided an opportunity for investors who missed out on the initial leg higher to buy the stock at a discount.

Bottom line

The real estate market has rarely been this hot. Rising costs of building materials have slowed down the supply of new homes. Meanwhile, record-low interest rates and the growing need for more space during the crisis has pushed demand to a record high. Unsurprisingly, transactions have surged, which is good news for back-office service providers like Real Matters.

Real Matters stock could serve as a proxy for the real estate market. If you expect prices to keep rising and interest rates to remain low, this stock should be on your watch list.

CATEGORY

1. Investing

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1. TSX:REAL (Real Matters Inc.)

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