Why WELL Health (TSX:WELL) Stock Is up 7%

Description

WELL Health Technologies (TSX:WELL) has been an incredible wealth builder over the past year. Today, it continued its winning streak by jumping another 7%. The catalyst for WELL Health stock's latest run is a better-than-expected earnings report. Here's a closer look at the numbers and the company's near-term outlook.

Second-quarter results

This morning, WELL Health published its second-quarter earnings report. The figures were much higher than expected. Revenue jumped 484% year over year to $61.8 million this quarter. Meanwhile, adjusted EBITDA jumped from a small loss in 2020 to $11.9 million in the second quarter of 2021.

Gross margins improved from 40% in 2020 to 48.9% in 2021, while gross profits jumped 615% to $30.2 million this quarter.

This pace of growth was primarily driven by the acquisition of CRH Medical. The team expects a similar boost from other acquisition deals that were recently sealed, including that of MyHealth Partners Inc. In fact, they've recently raised funds from investors to boost future acquisitions, so investors should expect similar deals that could generate more value in the near future.

WELL Health's stock valuation

Despite the 7% jump this morning, WELL Health stock is still undervalued. In fact, the stock is undervalued from a value and growth perspective. Let me explain.

Value investors would focus on a stock with a low price-to-earnings ratio. According to its latest quarterly report, WELL Health is on track to generate $100 million in adjusted EBITDA this year. Meanwhile, the company is worth $1.65 billion after its recent spike. In other words, its price-to-EBITDA ratio is 16.5 — extremely low for a telehealth software stock.

However, WELL Health stock is also undervalued from a growth perspective. The reason its top and bottom lines jumped triple digits this quarter was the successful acquisition of CRH Medical. Now, the company has several more acquisitions on its horizon. In fact, the team has launched WELL Health Ventures — a venture capital arm to invest in telehealth startups and boost the conglomerate's growth prospects.

This year's revenue run rate seems baked in at $400 million. However, future acquisitions and investments could push this run rate substantially higher. That means WELL Health stock is severely underpriced as a growth stock.

Bottom line

Investors who bet on WELL Health early have had a phenomenal run. WELL Health stock has delivered a 78% over the past year and 7,000% return since its listing in 2016. It's a multibagger with plenty of more room to grow.

Right now, the company's primary growth engine is acquisitions. The company's revenue and earnings surged tremendously this quarter, as they completed the acquisition of CRH Medical. More deals are on the horizon now that WELL Health Ventures has been launched.

Meanwhile, investors have overlooked this stock's true potential. It's still trading at a relatively low earnings and growth multiple. In other words, WELL Health stock should be on your radar regardless of your investment style.

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