



2 Top TSX IPO Stocks Set for Explosive Growth

Description

2021 has been a busy year for initial public offerings (IPOs) on the **TSX** and **TSX Venture** stock exchanges. According to [CPE Analytics](#), as of July 2021, there have been more than 88 IPOs across Canada's top exchanges. These offerings have raised more than \$6.92 billion in gross proceeds. There have been a number of other notable offerings through the summer, so TSX IPO statistics are likely even higher today.

TSX IPO stocks are tricky, but the returns can be explosive

The problem is, it is difficult to sort the gems from the duds. IPO stocks often have limited public information, lower trading liquidity, and their businesses lack a public track record. Therefore, the key is to do your own research, rely on your gut instincts, and be patient. These investments take time for the market to process. Never rush into an IPO stock, unless you have a really solid understanding of the business and its prospects.

If you are looking for some interesting TSX and TSXV IPO stocks for further study, here are two that look really interesting today.

Topicus.com: A top software play in Europe

Topicus.com ([TSXV:TOI](#)) was spun out early this year from a Canadian software legend, **Constellation Software**. In essence, it is mirroring Constellation's vertical market software consolidation strategy, but in Europe.

Europe has a very different entrepreneurial culture than North America. A specialized, focused approach makes sense. Constellation's flat, decentralized structure is likely a very attractive fit for European entrepreneurs looking to capitalize their niche software businesses.

Strong results in 2021

So far, this TSX stock has demonstrated strong results in 2021. For the past six months, Topicus.com grew revenues by 52%. It is profitable and it garners a great 18% free cash flow margin. However, earnings could be wonky for a few quarters still. There are some preferred securities (remaining from the IPO) that could distort earnings until they are converted to equity next year.

Today, Topicus.com stock's valuation looks a little stretched. Its price-to-sales multiple is 7.7 times. This TSX stock is up 88% since the spin-out. It has been driven up by investors hoping for a mini-Constellation repeat story. While this is certainly possible, it might be good to see a whole year of public results before piling into the stock completely.

Magnet Forensics: A fast-growing TSX cybersecurity stock

Another very interesting software IPO this year is **Magnet Forensics** ([TSX:MAGT](#)). This company provides digital forensics software for legal entities, law enforcement, and business enterprises. It has 4,000 customers across the world. Since 2018, this company has been growing revenues by a 38% compounded annual growth rate.

It just produced a quarter where revenues increased 42% to \$16.5 million. Magnet garners very high +90% gross margins from its software and services. Adjusted EBITDA margins are over 25%. Likewise, this TSX stock captures pretty stable 77% recurring revenues.

Big potential, but big valuation

Considering cybercrime is on the rise in our increasingly digital world, it is not hard to imagine a very large growth runway for this business. While there are many investment factors to like about this business, the stock is very expensive.

It too is up 88% year to date. It trades with a [market capitalization](#) of \$1.8 billion. For a business expecting to only earn \$65 million of revenues and \$11.7 million of adjusted EBITDA in 2021, that just seems very optimistic. Consequently, this is one TSX stock I would wait to buy on a major market pullback or stock correction.

CATEGORY

1. Investing
2. Tech Stocks

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:MAGT (Magnet Forensics)

2. TSXV:TOI (Topicus.Com Inc.)

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Date

2025/07/20

Date Created

2021/08/20

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