



Why Topicus (TSXV:TOI) Is up 30% in a Month

Description

Over the course of August, **Topicus.com** ([TSXV:TOI](#)) stock surged just over 30%. The company's market value has doubled since it went public at the start of this year. Some investors believe it has much more room to run.

Here's a closer look at this little-known tech stock and why it could sustain its growth momentum in the months ahead.

A proven business model

Toronto-based Topicus has a simple business model; it acquires boring but profitable software companies and tries to boost subscription revenue. Think of it as a real estate investment firm that buys software startups instead of property and collects subscription fees instead of rent.

Over the past six months since it went public, Topicus has reported robust growth numbers. Revenue for the quarter ended June 30, 2021, was up 54% from the previous year. For the first half of this year, the company reported €357.8 million, or CA\$534 million, in revenue — up 52% from the previous year.

Much of that growth is driven by acquisitions. However, the company's fundamentals are attractive, even without these acquisitions. Organic growth over the first half of 2021 was 7%.

In short, Topicus is executing a proven business strategy that worked for its parent company, **Constellation Software**. That's caught the attention of investors recently and is probably the reason why Topicus stock is up 30% over the past month. Despite that surge, the stock is still relatively attractive for new investors.

Topicus stock valuation

Topicus is currently on track to generate \$1 billion in revenue this year. Meanwhile, the company is worth \$5.2 billion. That means Topicus stock is trading at a price-to-sales (P/S) ratio of 5.2. That's cheap for a software company with wide margins and double-digit annual sales growth. Most software companies trade at double-digit P/S ratios right now.

Unlike most other tech stocks, Topicus is also cash flow positive. Over the first half of 2021, the company generated \$66.8 million in free cash flow (FCF) available to shareholders. Extrapolate that to \$130 million annually and the price-to-FCF ratio works out to 40.

Put simply, Topicus is a rapidly expanding [growth stock](#) that is trading at a fair value right now. It's an excellent opportunity for investors seeking a long-term bet.

Bottom line

Topicus is the most intriguing tech stock on the market right now. The spin-off is a bet that Constellation Software's business model can be replicated in Europe. Considering Europe's startup scene and tech valuations, this model should be incredibly lucrative.

Topicus's performance this year proves the efficacy of this strategy. The stock is up 30% over the past month and has doubled since going public in February. The valuation is no longer "extremely attractive" but is still fair enough for most investors seeking a long-term bet.

There's much more room to grow. Investors should certainly add this emerging tech star to their watch lists.

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