



## This Recent Canadian Tech IPO Has More Than Doubled: Is it Still a Buy?

### Description

Investing in IPOs, or initial public offerings, carries certain risks. The company that raises equity capital aims to fund its expansion plans, which, in turn, will enable it to grow revenue at an enviable pace. There might be optimism surrounding the company, which might inflate valuation numbers, making the stock expensive in the process.

The lack of revenue and earnings visibility might also make it difficult to fairly value these stocks, which results in a volatile trading environment at least in the near term. One high-growth Canadian tech company that went public this year was **Magnet Forensics** ([TSX:MAGT](#)). The stock IPO'd in April 2021 and has already doubled in market value in the last five months. But it's also down over 35% from all-time highs.

Will Magnet Forensics move higher in Q4 of 2021 to end trading at record highs or will an overvalued equity market weigh heavily on its performance?

### Why should you invest in Magnet Forensics stock?

Magnet Forensics provides enterprises with tools to investigate cybersecurity crimes and attacks. It develops digital investigation software that acquires, analyzes, and manages evidence from a variety of digital sources, including devices and cloud services. Its customer base ranges from the top enterprises of the world to governments and police agencies.

The company's solutions are used by more than 4,000 law enforcement, national security, military, and several public and private sector organizations across 94 countries. Magnet Forensics, in fact, has more than 150 Fortune 1,000 companies as its customers.

The demand for cybersecurity tools that will help companies defend themselves from digital attacks is the key driver for industry growth. According to market experts, the global cybersecurity market is forecast to touch US\$270 billion in 2026, up from \$173 billion in 2020. The [digital age has also increased](#) cybercrime activities at the global level and is a central challenge for law enforcement agencies as well as organizations. Industry reports predict global damages attributable to cybercrime

to touch US\$10.5 trillion by 2026, up from US\$1 trillion in 2020.

## Focus on revenue growth

The rapid explosion of data and devices has changed the way police and corporations investigate crimes and related incidents. In fact, close to 85% of criminal investigations require electronic evidence and elements such as instant messages, emails, GPS data, and browser histories to build a case.

Multiple secular tailwinds as well as Magnet's strategies that have allowed the company to expand its customer base have translated into revenue growth and profitability. In 2020, the [company reported sales](#) of US\$51.2 million, up from \$26.79 million in 2018, indicating a compound annual growth rate of 38% in the last two years. Bay Street forecasts sales to touch \$84.5 million in 2021 and \$108.84 million in 2022. Magnet Forensics has also improved its EBITDA from \$103,000 in 2018 to \$14.91 million in 2020.

The stock is trading at a forward price-to-2022-sales multiple of almost 17, while its price-to-earnings multiple is also steep at 193. While Magnet Forensics might seem overvalued, investors should also note that its growing revenue and earnings at a stellar pace, allowing the stock to command a premium valuation. It has solid long-term potential and is poised to crush the broader markets in the upcoming decade.

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**Author**

araghunath

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