Why Real Matters Stock Has Been Pummeled in 2021

Description

Real Matters (TSX:REAL) was the stock to beat in 2020, coming on the market at exactly the right time. Real Matters stock soared but has now become one of the most oversold stocks on the **TSX** today. Let's look at what's been happening with this stock and what Motley Fool investors should do now.

What happened?

The decline in Real Matters stock comes from a variety of factors. First, there was the market pullback. The TSX continues to fall with worries of inflation, and add to that worries about the housing market. This goes for the United States as well, as inflation climbs. Real Matters, a tech stock that provides mortgage lending and insurance industries its software, therefore falls into this worrisome category. Should mortgages and inflation hit economies hard, there could be a serious decline in earnings.

In fact, there already has been. Real Matters stock saw minor growth in some areas and a decline in others. For U.S. appraisal services, there was an increase of 17.5% year over year, but a decline of 28.8% year over year in the U.S. Title sector. However, consolidated adjusted EBITDA increased 30.5% for the third quarter. Consolidated revenue, therefore, increased 9.6% year over year and, in fact, posted record-breaking revenue and net revenue in the U.S. and Canadian appraisal segments. The problem was the U.S. Title segment, which severely weighed on Real Matters stock and sent shares shrinking. Despite this, management bought back 4.4 million shares and "remain confident in our long-term growth trajectory … [to] achieve our Fiscal 2025 targets."

So what?

The last quarter could have been worse, but it certainly could have been better. And that's how analysts felt. While there's a lot of "confidence" being pushed around, analysts aren't so sure. Shares fell 12.9% after the third-quarter results. Analysts therefore lowered ratings from "outperform" to "sector perform," shrinking the potential upside for Real Matters stock.

Analysts believe the shift towards potential “Tier 1/Tier 2 title win” created the drop in net revenue. With that diversified revenue gone, analysts expect the next quarter and into next year to be impacted as well. This will likely continue to drive share prices lower in the near term, though, long term, it’s harder to gauge. Even after stabilization from this lack of diversity in its portfolio, the new launch isn’t guaranteed. So, Motley Fool investors will have to wait and see what happens on the TSX today.

Now what?

Does that mean you shouldn’t buy? Or should you even be selling? In short, the answer is no on both counts. Real Matters stock continues to dig deeper into oversold territory. Sector perform isn’t bad, and it remains a buy recommendation for many analysts if only they can hold onto the stock for the long term. It trades at a significant discount, with a P/E of 18.06 and EV/EBITDA of 10.64. So, it’s definitely not as overpriced as it was. Shares are now down 65% from where they were at all-time highs. Those looking to get in now and hopefully see shares double to that range again would do well to buy today.

However, if you’re not a risk taker, Real Matter stock may not be for you. There are a lot of question marks with this stock. While long term the housing market will eventually rebound, if Motley Fool investors need cash in the next few years, I wouldn’t recommend the stock — even at these valuable prices.

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