This Tech Stock Zoomed From $0.37 to $3.7 in 5 Years!

Description

Tech stocks have dominated over the past decade. Ten years ago, the world's most valuable companies were either financial services businesses or oil producers. Now, they're all tech related. Unfortunately, Canada has many more finance and energy stocks than tech stocks.

Nevertheless, some of our emerging innovators have performed just as well as, if not better than, their American counterparts. Cloud services provider **Sangoma Technologies** (TSXV:STC) is a great example.

The stock was trading at just 37 cents in late 2016. Now, five years later, the stock is up 1,000% to $3.75. To put that into context, this little-known enterprise cloud business has outperformed enterprise software giant **Constellation Software** over the past five years. Constellation is up just 266% since 2016.

Here's a look at why this under-the-radar opportunity should be on your radar.

Sangoma's stock performance

Sangoma stock has come under pressure this year and is currently trading 28% below its all-time high. However, the selling pressure appears to be waning; the stock held steady in September, as the broader stock market corrected lower.

This recent pullback could prove to be an opportunity for investors who are seeking a growth stock at relatively reasonable valuations.

Valuation

On the valuation front, Sangoma Technologies is trading at a forward price-to-earnings multiple of 105.67. However, positive earnings and cash flow make this a better opportunity than most tech stocks at the moment. Also, Sangoma's rapidly improving financials and growth rate justifies its P/E ratio.

Improving financials

The fact that Sangoma Technologies has grown its EBITDA by over 70% over the past few years affirms its ability to generate value. The profit margins can only increase as demand for cloud-based solutions accelerates and the company moves to widen its customer mix.

The company has completed a strategic acquisition in the U.S. recently that improves its prospects in this critical market. The acquisition is also expected to strengthen its core cloud services platform. Sangoma should see higher gross margins and expanded recurring margins upwards of 70%, according to management forecasts.

Revenue is expected to grow by 26% in 2021, and EBITDA will increase by 40%, as the company continues to see solid growth across its key segments. Amid the strong growth, Sangoma stock trades at a fraction of the valuation of its larger and unprofitable peers.

Bottom line

Tech stocks have been the best source of growth for roughly a decade. Unfortunately, valuations are now stretched, and most of the low-hanging fruit is gone. Sangoma Technologies, however, could be an underappreciated opportunity for long-term investors seeking growth.

Sangoma stock has delivered 1,000% total return since late 2016. It still has plenty of room to grow. The company is looking at double-digit growth in revenue and net income over the next few years, but the stock price is now roughly a third off its all-time high. Add this to your "growth-at-a-reasonable-price" watch list.

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