Should You Buy Dye & Durham (TSX:DND) Stock Below $29?

Description

The year 2022 started on a gloomy note for the stock market as the global economy made efforts to return to the pre-pandemic level. Several macroeconomic factors have created bearish momentum in the stock market. Investors are doubtful about the future and are cashing out risky investments to hoard cash or put it in low-risk stocks and bonds.

Hence, high-growth tech stocks saw a massive profit-booking, especially from hedge funds. This sell-off has created an opportunity to buy at a cheap price. One such is **Dye & Durham** (TSX:DND), which is down 34% year to date and is trading closer to $29.

Dye & Durham stock trades closer to $29/share

Dye & Durham is one of those tech stocks that launched an initial public offering (IPO) at the peak of the pandemic and achieved robust growth in a short time. It surged 255% in seven months. But as the pandemic effect faded, investors booked profits, and almost all tech stocks lost their pandemic gains.

But a significant 22% dip came for DND stock in the first week of February when it hiked its prices. Some price hikes were as high as 900% (for its flagship Unity software). DND's cloud solutions help legal and business professionals improve efficiency and increase productivity. But a 900% price hike didn't go down well with customers, and they filed a class-action lawsuit against DND for violating federal competition laws. DND had promised to not hike prices for three years, but it backed out of that promise.

DND says that it hiked the price as it has enhanced its Unity software. As most of its clients are blue-chip companies with long-term contracts, a class-action lawsuit could mean trouble. (A class-action lawsuit by shareholders got **Lightspeed** to lose over 75% of its valuation.)

A blue-chip client base brings cash flow stability but losing a bunch of them could significantly impact revenues. Hence, DND's stock fell 22% in a week. As this matter is still open, the stock is trading below $29. But DND could probably resolve the issue with clients and ease the class-action lawsuit.

Dye & Durham's growth opportunities

DND is currently being swayed by the macroeconomic weakness and clients' anger. But its fundamentals and long-term growth prospects are bright. The company follows a strategy of growing through acquisitions. Its revenue and adjusted EBITDA surged 225% and 267%, respectively, thanks to revenue synergies from acquisitions.

One of its latest acquisitions was TELUS' Financial Solutions Business for $500 million in December. This business serves the financial community in Canada, and its revenue will be reflected in the next quarter. But the big catch is the transformational acquisition of Link Group for $3.2 billion. This would be DND's biggest acquisition and is expected to close in the third quarter of calendar 2022.

Link caters to over 6,000 clients worldwide in the financial services and corporate business segments. It has a significant presence in Australia and the United Kingdom. The acquisition will enhance DND's presence geographically and in adjacent verticals. If this acquisition succeeds, DND's valuation could increase severalfold.

After factoring in the acquisition of Link, a 41.5 times forward price-to-earnings ratio looks cheap.

Should you buy DND stocks at a $29 price?

The technical charts show DND stock is oversold and is trading below its 50- and 200-day moving average. There is no sign of any bounce back for some time. But if you keep waiting for a stock to hit the bottom, you will lose the opportunity to buy growth stocks for a cheap price. This stock is currently trading closer to its 52-week low of $27.2.

When tech stocks bounce back, DND could be your catalyst. But you need to be patient and hold on to the stock for at least two years till it realizes the synergies from the Link acquisition.

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pujatayal