Should You Buy This Small-Cap Stock on the Dip?

**Description**

**Computer Modelling** (TSX:CMG)'s market capitalization is just under $400 million. Today, I want to zero-in on this small-cap stock in the technology space. Is it worth snatching up in June? Let's jump in.



## A market set to double

Computer Modelling Group is a Calgary-based computer software technology company that develops and licenses reservoir simulation software in Canada and around the world. Shares of this small-cap tech stock have climbed 15% in 2022 as of close on June 8. However, the stock is still down about 3% in the year-over-year period.

Last year, MarketsAndMarkets released a report on the future of the simulation software market. It projected that the global software simulation market would grow from US$12.7 billion in 2020 to US$26.9 billion by 2026. That would represent a CAGR of 13% over the forecast period. Investors should be eager to get in on this promising space.

## Should you be encouraged by Computer Modelling's latest results?

This company released its fourth-quarter and full-year fiscal 2022 earnings on May 19. Computer Modelling's revenue comes almost entirely from software license sales. It also collects fees for professional services. Software license revenue enjoyed an uptick in the Eastern Hemisphere and Canada in the fourth quarter of fiscal 2022. However, it suffered a decrease in the United States and South America. Fortunately, the Eastern Hemisphere accounts for 43% of annual total software license revenue.

In Q4 2022, the company's annuity/maintenance license revenue rose 4% compared to the prior year. Meanwhile, perpetual license revenue jumped 99% to $1.2 million. Computer Modelling posted revenue growth of 12% to $18.7 million. Meanwhile, basic earnings per share rose by $0.01 to $0.06. It also achieved free cash flow per share of $0.08.

For the full year, annuity-maintenance license revenue fell 5% from the prior year to $53.4 million. Moreover, total revenue fell 2% to $66.2 million. Meanwhile, it posted basic EPS of $0.23 – down from $0.25 in the previous year. Free cash flow per share came in at $0.27 which was down from $0.30 per share in fiscal 2021.

## Verdict: Is this small-cap tech stock worth buying today?

This small-cap tech stock is more dynamic that it appears. The company also provided an outlook in its recent quarterly report. It expects the bull oil market to have a positive impact on its client cash flows, which in turn should provide a boost to Computer Modelling's bottom line. Meanwhile, it will continue to battle headwinds in the form of volatile market conditions and rising inflation.

Shares of Computer Modelling currently possess a favourable price-to-earnings ratio of 22. On May 18, it declared a quarterly dividend of $0.05 per common share. That represents a solid 4% yield.

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