



This Little-Known TSX Stock Has Huge Potential

Description

The first eight months of 2022 have been quite painful for equity investors. For those with exposure to growth stocks, the pain would have increased multifold. Trading at steep valuations and near record highs in late 2021, several growth stocks listed on the TSX have fallen off a cliff year to date.

But it's time to go bottom fishing and add quality stocks to your portfolio, given their depressed valuation. Investors need to identify companies that are part of rapidly expanding markets, allowing them to grow their revenue and earnings at a steady pace over time.

One such [tech stock](#) on the TSX is **Magnet Forensics** ([TSX:MAGT](#)), which is currently trading 61% below all-time highs. Valued at [a market cap](#) of \$1 billion, the mid-cap Canadian tech stock provides enterprises with tools to investigate cyberattacks and digital crimes.

It develops digital investigation software that acquires, analyzes, and manages evidence from digital sources, including computers, mobile devices, Internet of Things devices, and cloud services. The company has a blue-chip customer base, including organizations, governments, and police agencies.

Why Magnet Forensics stock is a buy?

The demand for digital investigation tools should continue to move higher in the upcoming decade. According to industry reports, the global cybersecurity market is forecast to touch US\$270 billion in 2026, up from US\$173 billion in 2020.

The global shift towards digital has resulted in an expanding wave of cybercrime, which is proving to be a major challenge for enterprises and law enforcement agencies. In fact, global damages attributable to cybercrime could be as high as US\$10.5 trillion by 2026, up from US\$1 trillion in 2020.

A European Commission report claimed electronic evidence is required in 85% of criminal investigations as messages, emails, GPS data, and browser histories are all crucial to building cases, which should increase demand for Magnet's portfolio of tools and solutions.

Magnet is optimistic about its structured approach, where the company provides customers with an ability to quickly identify critical data and evidence. It takes unstructured data from devices and applications, which is then presented in a simplified format.

Its built-in automation, analytics, and data visualization tools are used to identify critical evidence and generate case reports.

Magnet Forensics's solutions are used by over 4,000 law enforcement, national security, military, and other private and public sector organizations across 100 countries. About 150 Fortune 1,000 companies are its clients, allowing Magnet to report revenue of US\$70.28 million in 2021 compared to revenue of US\$26.7 million in 2018.

What's next for Magnet stock and investors?

In the second quarter (Q2) of 2022, Magnet Forensics reported revenue of US\$23.1 million, an increase of 41% year over year. Its gross margins stood at 93%, allowing the company to report an adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) of US\$3.5 million in the June quarter. Additionally, it ended Q2 with annual recurring revenue of US\$73.7 million, rising 49% year over year.

Magnet expects its sales to rise around 30% to US\$92 million in 2022, indicating the company is valued at 8.2 times forward sales, which is still quite steep. But demand for cybersecurity solutions will continue to remain high across economic cycles making Magnet Forensics a top bet right now.

Analysts tracking the stock also expect Magnet Forensics shares to rise by 50% in the next 12 months.

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