1 Undervalued Growth Stock Down 73% to Buy Hand Over Fist in 2023

Description

Several TSX growth stocks have fallen off a cliff in 2022, as market participants are worried about the steep valuations surrounding these companies. An uncertain macro environment is likely to decelerate revenue growth and compress profit margins for organizations across sectors in 2023.

But in a few cases, the selloff may be exaggerated, allowing investors to buy quality TSX stocks at a discount. Here is one such undervalued TSX stock in **Dye & Durham** (TSX:DND) you can consider buying in 2023.

DND stock is down 73% from all-time highs

Valued at a market cap of $930 million, Dye & Durham has trailed the broader market by a wide margin and is down 73% from record highs. Dye & Durham provides legal software as well as data and payments technology solutions to its base of enterprise clients. Its portfolio of solutions aims to increase the efficiency and productivity of employees.

Some of the company's clients include the largest real estate players globally. With operations in Canada, the United Kingdom, and Australia, DND has onboarded more than 50,000 clients to date.

Dye & Durham has increased revenue growth by aggressively acquiring companies in recent years. In the last two years, it has acquired 11 companies and has closed over 30 acquisitions since its inception.

Dye & Durham has deployed capital prudently and allocated $1.1 billion towards acquisitions as a publicly listed entity. It claims these acquisitions have resulted in a post-synergy acquisition EBITDA (earnings before interest, tax, depreciation, and amortization) multiple of 5.4 times, which is quite exceptional.

In the last three years, its sales have surged by 114% annually, allowing DND to maintain an average EBITDA margin of 57% in this period.

What's next for DND stock and investors?

In the first quarter of fiscal 2023 (ended in September), Dye & Durham reported revenue of $120.2 million — an increase of 7% year over year. Around 68% of its sales were attributed to real estate transactions in key markets, including Canada. Its net losses declined by $33.6 million year over year to $11.5 million, while adjusted EBITDA rose 3% to $64.4 million.

Bay Street analysts expect rising interest rates to negatively impact real estate demand in several of the company's markets. After a period of astonishing top-line growth, DND is forecast to experience a decline of 0.10% in its sales in fiscal 2023. However, as global markets recover, its revenue might surge by 9.3% to $518.4 million in fiscal 2024.

Further, its bottom line might decline to a loss per share of $0.21 in fiscal 2023 compared to earnings of $0.11 per share in fiscal 2022. But DND is forecast to improve earnings to $0.46 per share in fiscal 2024.

DND stock is valued at less than two times forward sales and 30.4 times forward earnings, given its estimates, which is very reasonable for a growth stock. Analysts tracking DND stock expect it to gain by almost 60% in the next 12 months.

If you expect the equity market to recover in 2023, it makes sense to buy and hold shares of Dye & Durham right now.

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