Quarterhill (TSX:QTRH): A Deeply Undervalued Tech Stock

Description

Layoffs and drawdowns continue in the tech sector. Unprofitable startups with flimsy business models have been punished by investors since 2021. However, the tech selloff has also impacted mundane and profitable tech companies with brighter futures.

Toronto-based **Quarterhill** (TSX:QTRH) firmly fits the latter category. Here's a closer look at this overlooked and underappreciated tech conglomerate.

Transport tech

Niche enterprise software is extremely lucrative. Providing mundane but essential services such as a message board for container ship operators or an inventory tracking software for farmers is far less competitive than the consumer tech sector. These enterprise software firms have sticky revenue because their tools are mission critical for their subscribers.

Quarterhill is focused on acquiring software tools in the transportation sector. The company's subsidiaries include IRD, ETC and WiLAN. These subsidiaries focus on data analytics tools for traffic flow, toll booth operating software and transport-related patents.

Before you yawn, I should point out that Quarterhill generated $254.8 million in revenue in the first nine months of 2022 — 242% higher than the previous year. The company also has a revenue backlog of US$581 million (CA$778.8 million) on its books.

Quarterhill is a growth-oriented tech company with enough runway ahead of it to deliver significant gains.

Outlook

Quarterhill expects to keep growing through acquisitions. To fuel these acquisitions, it has $112.8 million in working capital and roughly $76 million in cash and cash equivalents on its books.

The company could be on track to generate $500 million in annual revenue by 2025, according to the team's forecasts. By then, it also expects to hit an EBITDA (earnings before interest, taxes, depreciation, and amortization) margin of 15% and trade at a 15 times EBITDA multiple.

If these targets are met, Quarterhill could be worth $1.1 billion by 2025. Right now, the company is worth just $186 million. Put simply, there's upside potential of roughly 600%.

Quarterhill stock is currently undervalued. It trades at a price-to-earnings ratio of just 14. The company also offers a generous dividend of $0.0125 per common share every quarter. That implies a dividend yield of 3.1%.

Investors should expect the company to turn profitable within a few years and deliver substantial gains by 2025.

Bottom line

Quarterhill is an overlooked growth stock in the beaten-down tech sector. Quarterhill has lost 38.7% of its value over the past year, underperforming the broader stock market. It's now worth just $186 million, while it has $778.8 million in orders on backlog and is on track to generate over $500 in annual revenue by 2025.

Put simply, the stock is undervalued and should be on your list for 2023 if you're looking for a growth opportunity. I expect Quarterhill to deliver substantial gains if it meets its revenue target and investor sentiment about tech stocks improves in the next few years.

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