Tucows Stock Trades Near its 6-Year Low: Is it a Buy?

**Description**

Two types of stocks had their worst nightmare in 2022: tech stocks and those with high debt leverage. Companies with high leverage take a blow from rising interest expenses from interest rate hikes. Generally, growth stocks don't have high leverage but still fall in a rising interest rate and inflationary environment. One stock that fell and took both hits was **Tucows** (TSX:TC).



## Stock price momentum

Tucows stock fell 63% from its November 2021 high to a six-year low of US$40.81. While other tech stocks showed recovery this year, there was no recovery in sight for Tucows. It leaves you with one question, does this small-cap stock have any upside? After all, it has rallied more than 70% within 12 months during its growth spurts. Let's see if there is a growth spurt in the making as the stock trades closer to its oversold category.

## Why did Tucows stock fall 63%?

Tucows provides people with internet access through communications service technology (Wavelo), domain services (Tucows Domains), and fibre-optic internet infrastructure (Ting). While Ting is a capital-intensive business that needs capital to deploy fibre, Wavelo and Tucows Domains are software-based businesses that generate profits on higher revenue per user. All three businesses benefit from volume, and Tucows grew volume during the pandemic as the world moved to the internet.

In 2022, Tucows began restructuring its business and accelerated its fibre network buildout, spending US$86.3 million in capital (up from US$56.2 million in 2021). These decisions significantly increased its interest expense by 315% to US$14.5 million (US$4.6 million in 2021). Such elevated expenses pushed Tucows into a net loss of US$27.6 million (from a profit of US$3.4 million in 2021). Ting was the biggest contributor towards losses, reporting adjusted EBITDA of -US$21.6 million.

That explains the 63% dip in Tucows share price. But the stock has witnessed growth spurts after steep dips.

## Is a growth spurt in sight for Tucows?

Tucows' fibre network expansion has increased the serviceable addresses of Ting. This year, Ting will focus on optimizing this infrastructure by adding more subscribers to its network, thereby generating more revenue.

The next big growth opportunity is likely to come from Wavelo, which offers Platform and Professional Services and billing solutions to internet services providers. Tucows is currently migrating its customers to Wavelo. As it was the first year since the platform became operational, professional fees accounted for most of its revenue. Generally, these fees have higher margins, but Wavelo charged a lower fee to DISH as the latter brings disruptive pricing and a large subscriber base. As a result, Wavelo's adjusted EBITDA fell 47% to US$3.9 million. Tucows expects stronger volumes from DISH that could convert to higher recurring revenue in the coming years.

Investments in the above two segments could drive growth going forward.

## What about Tucows' domain business?



Wavelo and Ting are supplementary businesses, but Tucows' core business is selling domains. It earns 76% of revenue from the domain business and contributes US$44.8 million towards adjusted EBITDA. In fact, profit from the domain business more than offset losses of US$21.5 million from Ting.

Tucows is the second-largest domain registrar in the world, with OpenSRS, Enom, Ascio and Hover under its umbrella. It is looking to integrate these platforms and explore new services to help domain customers expand their web presence. These additional services could bring the company incremental revenue from its vast domain customer base. That is where the real money lies and could create a growth spurt for Tucows.

## Is Tucows stock a buy at its six-year low?

The year, 2023 remains challenging for tech companies with high leverage. Tucows has US$235.3 million net debt, and its US$23.5 million cash reserve is insufficient to fund losses for another year. I remain bearish on the stock until there is some announcement in the domain business and an easing of debt.

A high-interest rate environment is not the right time to boost capital spending as it reduces your returns. There are better tech and telecom stocks with stronger balance sheets. **Shopify** allows retailers to create online shops with complementary services like inventory management, payments, marketing, and analytics. Moreover, it has low leverage. As for telecom, **BCE** is a better option as it funded its accelerated fibre rollout (2020 and 2022) at record-low interest rates.

**CATEGORY**

1. Investing
2. Tech Stocks

**TICKERS GLOBAL**

1. TSX:TC (Tucows)
2. NASDAQ:TCX (Tucows)

**PARTNER-FEEDS**

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

**PP NOTIFY USER**

1. cleona
2. pujatayal

**Category**

1. Investing
2. Tech Stocks



**Date**
2025/08/29
**Date Created**
2023/02/20
**Author**
pujatayal