IPO Alert: Dye & Durham (TSX:DND) Can Double in Price

Description

On Friday last week, Canada's latest initial public offering (IPO) hit the markets. After several failed attempts at launching an IPO, legal software company **Dye & Durham** (TSX:DND) finally began trading on the TSX Index.

On the day of the IPO, the company's share price soared and closed the day at $14.80. A near 100% gain from the company's IPO price of $7.50 per share. It also represented gains of 28.7% from the opening price of $11.50 per share.

If you are worried you may have missed out on Canada's last IPO, don't be. Dye & Durham still has plenty of room to run.

Strong demand for IPO

If you are wondering why there was such strong demand for the stock on opening day, you need look no further than the news leading up to the IPO. Dye and Durham priced its IPO at $7.50 per share, which was at the top of its price range.

Furthermore, it raised $150 million from the offering, up from the $100 million it sought initially. To top it off, demand exceeded available stock by more than $1 billion. Perhaps it was a result of previous failures, but the company and its underwriters had clearly underestimated demand.

This is not surprising. There are few legitimate TSX-listed software as a service (SAAS) tech companies. Canadians are limited in their options, and usually need to go south of the border to gain exposure to high-growth tech stocks.

A cheap tech company

At $7.50 per share, the IPO market valued the company at approximately three times sales based on the last trailing 12 months. This is cheap for a software as a service (SAAS) company. In fact, many of its SAAS peers are trading at price-to-sales (P/S) ratios in the double digits.

As an example, peers such as **Lightspeed POS** and **Docebo** are trading at a P/S ratios of 26.41 and 24.09, respectively. In fact, one need only look at both these companies to understand Dye and Durham's potential.

Lightspeed's share price more than doubled in the year following its IPO, and Docebo is up by 145% since it opened on the TSX back in October. It is worth nothing that this strong performance is in relation to the company's opening trading price.

These returns make Dye and Durham's current gains of 21.7% look quite modest. It also means that the company has significant potential. Now trading at only 4.8 times sales, the company's share price can more than double if it trades in the double digits.

A high-growth stock

Can it reach a valuation of 10 times sales? Without question. This is a company that has grown revenue by a compound annual growth rate of 76% over the past three years. It is on pace to surpass this growth rate in 2020. Through the first nine months of the year, it generated $60 million in revenue, far eclipsing the $43.8 million for the full year in 2019.

The company's growth is bolstered by acquisitions, of which it has made 14 since 2013. It is quickly becoming an industry leader with strong customer retention (109%) and low churn rate (2%). It has more than 25,000 active clients with an average customer relationship of 16.6 years.

Likewise, it counts all 20 of Canada's largest legal firms as clients. Dye & Durham's dominance in the market is notable and should drive considerable growth as more law firms adopt SAAS technology.

Is Dye & Durham a buy today?

Investing in IPOs comes with considerable risk. This is especially true in early trading and is not for the defensive investor. Case in point, Dye & Durham's stock price has been consolidating over the past few days and has yet to surpass last Friday's close of $14.80 per share.

Give it time. The company is cheap, and, in my opinion, there is a strong bullish case for the stock, especially when one takes into account the valuations of SAAS peers.

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