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ANALYSIS

Wednesday's TSX breakouts: A little-known stock that's up 38% with a further 40% gain forecast

JENNIFER DOWTY >

PUBLISHED 7 HOURS AGO

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On today's TSX Breakouts report, there are 30 stocks on the positive breakouts list (stocks with positive price momentum), and 36 securities are on the negative breakouts list (stocks with negative price momentum).

Discussed today is a stock that investors with a high risk tolerance may want to put on their radar and conduct further research on. This micro-cap stock is in an uptrend, closing at a record high on May 31. Year-to-date, the share price is up nearly 38 per cent. However, in the absence of any news and elevated market volatility, the share price may drift down to the high 80 cent range in the near-term. There are two analysts who cover the company and both analysts expect the stock to deliver solid double-digit returns over the next 12 months (forecast one-year returns are 54 per cent by one analyst and 26 per cent by another analyst).

The security featured today is **Redishred Capital Corp.** (KUT-X).

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An advertisement for Accelerate Absolute Return Hedge Fund. It features a dark blue background with white and orange text. At the top right is a small 'X' icon. The main text reads 'Worried about a stock market downturn?' in white. Below that, 'Try HDGE' is written in orange, followed by 'Accelerate Absolute Return Hedge Fund' in white. A large orange button with white text says 'Learn More >>'. At the bottom is the 'Accelerate' logo in white, with the tagline 'Because Performance Matters.' below it.

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A brief outline is provided below that may serve as a springboard for further fundamental research.

The company

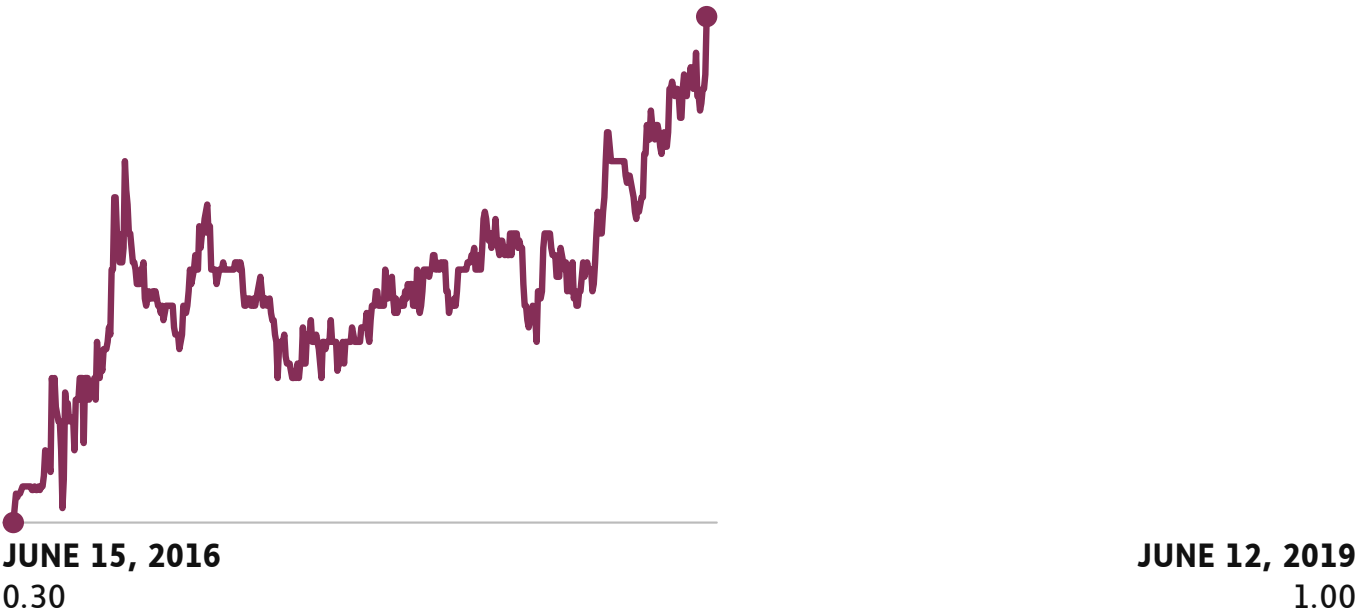
Mississauga-based Redishred provides recycling and destruction services - shredding information sensitive documents through its corporate and franchise locations across the U.S. In terms of revenue breakdown, shredding services represented 66 per cent of the company's total revenue in 2018. Other sources of revenue include royalties fee, sale of paper products, and franchise fees. There is seasonality in the company's operations with the highest revenue reported in the second and third quarters.

Management's key objectives are to increase organic revenue growth, in particular recurring revenue, to achieve acquisition growth with small, tuck-in purchases that will expand the company's presence, and to increase the number of franchise locations. In 2018, the company achieved solid top-line growth, revenue rose over 22 per cent to \$14.66-million from \$11.95-million. Reported EBITDA (earnings before interest, taxes, depreciation and amortization) was \$3.5-million and earnings per share was 5 cents.

Continued steady growth is anticipated. For 2019, management is targeting EBITDA growth from existing locations of 14 per cent year-over-year. Management’s long-term objectives are to achieve EBITDA growth of between 5 per cent and 10 per cent from existing operations, expand its footprint by opening a franchise in one new market each year, and to increase its corporate locations to 12 by 2020 up from nine locations as at March 31, 2019,

On May 29, the company released its first-quarter financial results. Revenue rose 65 per cent year-over-year to \$5.2-million. EBITDA came in at \$1.6-million, up 103 per cent year-over-year. EBITDA margin was 31 per cent, up from 25 per cent reported during the same period last year. The share price was unchanged the following trading session.

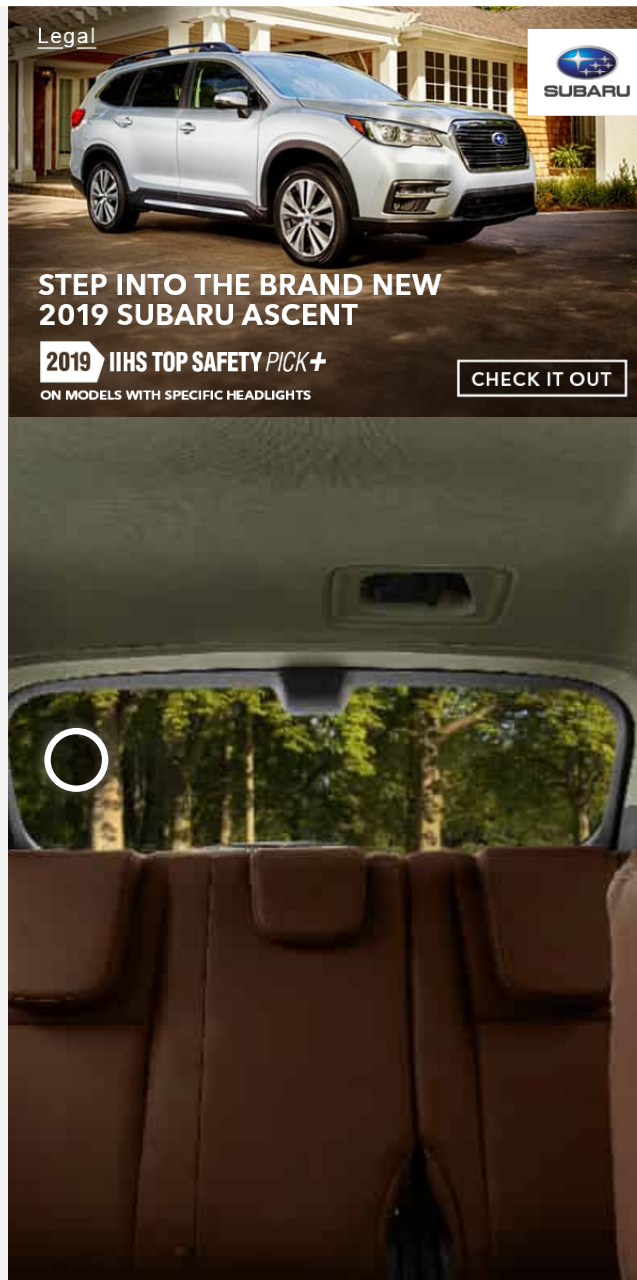
REDISHRED CAPITAL CORP 1.00 +0.71 (244.83%)
PAST THREE YEARS



SOURCE: BARCHART

Dividend policy

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Management is focused on growth and currently does not pay its shareholders a dividend.

Analysts' recommendations

There are two analysts covering this micro-cap stock with a market capitalization of just \$61-million, and both analysts have “buy” recommendations.

The average 12-month target price is \$1.28, implying a 40-per-cent potential one-year return. Looking at individual target prices, Brian Pow, an analyst at Acumen Capital, has a target price of \$1.40, implying a potential one-year return of 54 per cent. Bob Gibson, an analyst at PI Financial Corp., has a target price of \$1.15, suggesting the share price may rise 26 per cent over the next 12 months.

Revised recommendation

Last month, Mr. Pow lifted his target price to \$1.40 from \$1.25.

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Financial forecasts

For 2019, the consensus revenue, EBITDA and earnings per share estimates are \$21.35-million, \$6.5-million, and 3.5 cents, respectively. For 2020, the consensus estimates for these financial metrics are \$22.8-million, \$7.1-million and 3.5 cents.

Earnings forecasts have increased slightly in recent months. For instance, three months ago, the consensus revenue and EBITDA estimates were \$20.4-million and \$6-million for 2019, and \$21.6-million and \$6.8-million for 2020.

Valuation

According to Bloomberg, the stock is trading at an enterprise value-to-EBITDA multiple of 9.5 times the 2020 consensus estimate, which is close to peak levels.

Insider transaction activities

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7.7%
Average return for
the past 10 years*
*as of Dec 31, 2018. Past performance
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Year-to-date, there have not been any transactions in the public market reported by insiders.

Chart watch

Year-to-date, the share price has rallied nearly 38 per cent. The stock's next major ceiling of resistance is around \$1. Looking at the downside, there is initial technical support around 87 cents, which is at its 50-day moving average. Failing that, the next support level is around 80 cents.

This stock can be thinly traded, which can increase volatility in the share price. The three-month daily average trading volume is approximately 77,000 shares. In the

near-term, in the absence of any news and given heightened market volatility, the share price may drift back down into the high 80 cent range.

The Breakouts file is a technical analysis screen intended to identify companies that are technically breaking out. In addition, this report highlights a company's dividend policy, analysts' recommendations, financial forecasts, and provides a brief technical analysis for a security to provide readers with more information.

If a stock appears on the positive breakouts list, this indicates positive price momentum, and that a company may be worthwhile for investors to look at the fundamentals in order to determine if the recent price strength is warranted and will continue. If a security appears on the negative breakouts list, this indicates negative price momentum, and may be indicative of either deteriorating fundamentals or perhaps indicates a buying opportunity.

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Securities screened are from the S&P/TSX composite index, the S&P/TSX Small Cap index, as well as Canadian small cap stocks outside of these indexes that have a minimum market capitalization of \$200-million.

A technical analysis screen does not replace fundamental analysis, but can help identify companies worth having a closer look at.



POSITIVE BREAKOUTS

AIF-T	Altus Group Ltd
BLU-T	BELLUS Health Inc.
DOO-T	BRP Inc
CSH-UN-T	Chartwell Retirement Residences
CHR-T	Chorus Aviation Inc
CCA-T	Cogeco Communications Inc
DIR-UN-T	Dream Industrial REIT
ENGH-T	Enghouse Systems Ltd
ERO-T	Ero Copper Corp.
EIF-T	Exchange Income Corp
FCR-T	First Capital Realty Inc
MIC-T	Genworth MI Canada Inc
GSY-T	goeasy Ltd
HRX-T	Heroux-Devtek Inc
HBC-T	Hudson's Bay Co
ITX-T	Intertain Group Ltd
JE-T	Just Energy Group Inc
KXS-T	Kinaxis Inc
LB-T	Laurentian Bank of Canada
MTY-T	MTY Food Group Inc.
NFI-T	New Flyer Industries Inc

BCI-T	New Look Vision Group Inc
NWC-T	North West Co Inc
NWH-UN-T	NorthWest Healthcare Properties REIT
PIF-T	Polaris Infrastructure Inc.
PBL-T	Pollard Banknote Ltd.
REAL-T	Real Matters
SHOP-T	Shopify Inc
SPB-T	Superior Plus Corp
Y-T	Yellow Pages Ltd
	Negative Breakouts
ABT-T	Absolute Software Corp
AAV-T	Advantage Oil & Gas Ltd
ALS-T	Altius Minerals Corp
ARX-T	ARC Resources Ltd
BIR-T	Birchcliff Energy Ltd
GBT-T	BMTC Group Inc
BNE-T	Bonterra Energy Corp
BRE-T	Brookfield Real Estate Services Inc
CFW-T	Calfrac Well Services Ltd
OH-T	CannaRoyalty Corp.
EMH-T	Emerald Health Therapeutics Inc.
ENB-T	Enbridge Inc
FVI-T	Fortuna Silver Mines Inc
KEL-T	Kelt Exploration Ltd
TPX-B-T	Molson Coors Canada Inc.
NCU-T	Nevada Copper Corp
NVA-T	NuVista Energy Ltd

OGC-T	OceanaGold Corp
PONY-T	Painted Pony Energy Ltd
PEY-T	Peyto Exploration & Development Corp
PIPE-T	Pipestone Energy Corp.
RFP-T	Resolute Forest Products Inc.
RVX-T	Resverlogix Corp
SIS-T	Savaria Corp.
VII-T	Seven Generations Energy Ltd
SRX-T	Storm Resources Ltd.
SOX-T	Stuart Olson Inc
SGY-T	Surge Energy Inc
TVE-T	Tamarack Valley Energy Ltd.
TGOD-T	The Green Organic Dutchman Holdings Ltd.
TOT-T	Total Energy Services Inc
TOU-T	Tourmaline Oil Corp
TGL-T	TransGlobe Energy Corp
TCW-T	Trican Well Service Ltd
VET-T	Vermilion Energy Inc
WCP-T	Whitecap Resources Inc

Source: Bloomberg

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TICKERS MENTIONED IN THIS STORY

 Data Update 

SYMBOL	NAME	LAST	CHANGE	% CHANGE
KUT-X	Investing/Markets/Stocks/Ad Capital Corp	1.000	+0.080	+8.70%

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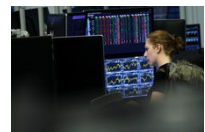
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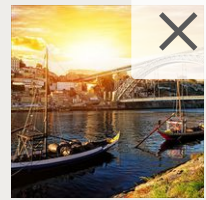
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