

For smooth sailing on stormy seas: Armada Data

By Mike Kachanovsky

I am convinced the rebound in the overall markets that has been ongoing since the spring is just a mirage — a sucker rally — and I expect the severe correction to resume later this year as part of the main bear trend. That does not mean that I am liquidating all my stock holdings, but it does make me very selective in terms of what I wish to hold in my portfolio going into the fall.

Two core concepts that I continue to emphasize in the stocks I present are to seek value and to identify companies that can deliver future growth and build on a strong balance sheet. It is hard to get hurt when you can buy a dollar's worth of assets and pay less than a dollar. And companies with low debt and the ability to generate recurring income and growth from operations are more stable during difficult markets. None of this is rocket science.

One microcap stock that I think is a good candidate is **Armada Data Corp.** (ARD-TSX/VEN, \$0.20). This niche player has become the leading provider in Canada for automotive data to the insurance industry. It is also building a market for retail car buyers that access auto-pricing information and a network of dealerships to help secure a lower purchase price when buying a new car.

Armada is not a new company. It has been a service provider for the insurance industry for the last 10 years. Company founder and current president Paul Timoteo has been active in the automotive sector for more than 25 years and recognized the need for



M. Kachanovsky

accurate pricing information on the Canada car market to assist insurance companies with claims settlement.

By outsourcing this application to Armada, insurance companies can better determine the fair compensation value for cars that are written off in accidents. Armada evolved into a specialist of all related information to generate full reporting on variety of data that it supplies faster and cheaper than insurance companies can achieve in-house.

Eight of the top 10 Canadian insurance companies now count on Armada. And despite posting solid growth during the last few years, the potential is still high for the future. Timoteo believes his company can capture 50 per cent of the entire Canadian market for insurance-claim settlements as he continues to earn the respect in the industry.

Armada also seeks to gain greater awareness from retail car buyers in a related market segment. Among individual new-car dealerships, there is often a wide variance between the selling price and the actual dealer-invoice value of a new car. By providing detailed information to retail new car buyers on factory-, dealer-invoice pricing, plus market incentives, rebates, finance programs and other related variables that affect the final price of a car, consumers are in better position to negotiate a lower price for their purchase.

But the benefits do not end there. Armada also provides comparative data to help purchasers choose which vehicle is right for them, with information on a number of important factors in-

cluding fuel economy, optional equipment, warranty and advice.

The company has recognized this leverage of an educated and motivated market of new-car buyers and is pairing up partner dealerships willing to offer value pricing. A network of referrals is automatically generated for retail buyers to contact local new-car dealerships. This generates a stream of qualified buyers for the dealers, and allows buyers to negotiate better prices with motivated dealerships, saving them money. And Armada gains a fee from the dealer for each referral whether the customer buys or not, earning the company a growing stream of revenue.

Armada is building its retail business, selling memberships to retail consumers to access its services on its website: www.car-costcanada.com. There are over 100,000 current members and the company is on track to add another 23,000 new members by the end of this year. Growth in the retail consumer space is a key strategy in the plan to continue earnings momentum. Management has targeted innovative advertising campaigns to find new clients, and is partnering with well-known consumer agencies like the CAA (Canadian Automobile Association) to help build awareness.

Given the huge head-start that Armada has earned in the automotive data space, it is unlikely that a new significant player will step up to compete. And with each year the company is able to win greater utilization within the insurance industry and attract new retail clients for new car purchases, the revenues continue to grow.

Since most of the services Armada provides are fully automat-

ed, the company operates under a very low cost structure that generates high gross margins. The company has reported a net profit for eight consecutive quarters, and management expects that 2009 will represent a breakout year with an estimated 4-5 cents per share of earnings. Add in the fact that it is debt free and recently announced a dividend payout to shareholders.

This is impressive performance, yet the company is well under the radar for most investors. The stock trades around 20 cents and strong fundamentals suggest the potential for the stock to trade much higher in the years ahead.

I prefaced this article with my assumption that the economy has not yet emerged from the recession. If so, it is likely that auto purchases will decline, but equally likely that consumers who are in the market for a new car will be motivated to capture the best possible price advantage. This is bullish for Armada.

The insurance-settlement business is immune from recessionary pressure, and that too is bullish for Armada. Since the stock is lightly traded with a single digit P/E ratio, it is unlikely to suffer in a major market meltdown. Regardless of whether we have to endure severe market volatility ahead, owning sound companies with strong growth potential never goes out of style. Armada Data should be one company that can sustain growth in a difficult market but still be attractive if the good times roll.

Michael Kachanovsky is a freelance writer who specializes in junior mining stocks. He can be reached at mike@smartinvestment.ca.