This fund manager thinks Afterpay Touch Group Ltd (ASX:APT) shares could hit $25 to $50 in a year

Tristan Harrison | July 27, 2018 10:18am | More on: APT

One of the biggest success stories over the past year has been **Afterpay Touch Group Ltd** (ASX: APT), the share price has gone up by more than 350%.

For some businesses that could be it for the share price growth, they may take a while to grow into their valuation.

However, one fund manager thinks that Afterpay could continue to rocket higher from here.

Emanuel Datt from Datt Capital has written a piece for Livewire saying that Afterpay could be worth a lot more in a year's time. He questions the current commentary that Afterpay is overvalued – how do you value a company that is growing almost exponentially?

He pointed to the fact that although Afterpay has a large market share of online goods in Australia, it only has a 0.5% share of in-store purchase. Over time he thinks Afterpay can capture a low single-digit share of the market.

Mr Datt also referenced that the US online retail market opportunity is steadily growing and its total size is more than $200 billion. The US in-store non-food market is worth more than $1.5 trillion.

Another avenue of growth for Afterpay in the future is the UK and EU markets, which are both much larger than Australia.

Those numbers are impressive but Afterpay is also building other valuable assets according to Mr Datt. It is building a credit history of its customers, it could create additional income streams with this information.

It has building a lot of loyalty with its consumers. It apparently has brand loyalty with millennials now using "Afterpay it" as a term.

In a somewhat surprising comparison, he said Amazon is a close comparable with Afterpay due to its large growth potential, gross sales and slim margins. He said that Afterpay could trade on a price/sales ratio of 1 times if it remains an ASX-only company but could go to 2 times if it achieved a joint listing in the US.

Mr Datt thinks Afterpay will be achieving annualised gross sales of at least $5.5 billion in a year, with the US being more than $1 billion. Using the above p/s ratio information, the share price could be $25 to $50.

Foolish takeaway

A $50 share price in a year from here seems *very* optimistic. Afterpay also comes with credit risk and in a downturn could be seriously hurt. I do think there is a lot of potential upside to Afterpay, particularly if it becomes popular in the US. However, I'll be surprised if it's $25 in a year's time, although in the longer-term it has a very good chance of hitting that share price.

For now, I'd rather buy shares of **this exciting ASX growth stock** which is predicting profit growth of 30% in FY18 and is trading at a much more conventional value.