Shooting for the Stars: Can Constellation Software Inc.'s Stock Keep Soaring?

Description

Constellation Software Inc.'s (TSX:CSU) stellar stock chart is out of this world for Canadian investors. The tech company's shares have risen from under $40 in 2010 to a closing price on Friday, February 6, of $376.94. That's a stunning five-year gain of 859%. It's quite a story and at least one analyst believes the stock still has plenty of upside.

Jason Donville, president and CEO at Donville Kent Asset Management, believes Constellation's remarkable performance will continue as it focuses on its real expertise: the purchase of other companies. "My expectation is that it's going to be another great year of acquisitions for Constellation," Donville said recently on BNN's *Market Call*.

Without mentioning specifics, Donville noted a recent debt financing by Constellation, suggesting the software company might be preparing for another move. Last fall, Constellation completed a two-tranche offering, raising $91.5 million.

At the time, Constellation said the stock offering would be used to pay down a portion of its existing indebtedness. Donville's not buying it. "If you don't think you are going to be acquiring something, why would you be raising debt right now?" he asked. "What they are signalling to the market by doing their debt deal is that they think they are going to have a use of capital. The last thing they want to do is be overcapitalized by taking on a bunch of money they can't employ."

Donville expects the company to grow by at least 25% in 2015 and to "once again generate superior, risk adjusted returns for its shareholders."

Constellation acquires, manages, and builds vertical market software businesses. That's a fancy way of saying it provides software and services, to both private and public businesses.

The tech company's last major purchase was in December 2014, when it completed, through its wholly owned subsidiary N. Harris Computer Corporation, the acquisition of CareTracker, a subsidiary of OptumInsight. CareTracker provides practice management solutions for physician practices in the United States. Financial terms were not released.

“CareTracker is a great addition to our portfolio and complements our existing acute care solutions,” said Harris CEO Jeff Bender. “With CareTracker we gain immediate scale from both an employee and customer perspective into the physician office.”

This is the type of transaction that Constellation gravitates towards, expanding its technology into a niche, but very profitable area; in this case, the U.S. physician market.

In September 2014, Constellation said that its wholly owned subsidiary Volaris Group had acquired Incognito Software and Interactive Enterprises (Ireland), a communications support business with operations around the world.

See the pattern here? Constellation makes relatively small purchases in niche areas in the technology world, adding to its profits but also protecting itself against its tech competitors by adding numerous bolt-on acquisitions.

It’s a strategy the company outlines succinctly on its website: “CSI recognizes the value of these rare companies, and following an acquisition, we leave them to continue their exceptional operations as they have in the past.”

So far, it’s a recipe that has worked well for the Toronto-based company.

Constellation’s latest earnings report comes out later this month. We’ll find out then if investors still want to go along with the company’s wild ride. Our guess is that Constellation’s spectacular stock chart will soon look even better, making the stock a solid, though somewhat expensive addition to an investor’s portfolio.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

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