



Should You Buy Constellation Software Inc. After the Recent Dip?

Description

Constellation Software Inc. ([TSX:CSU](#)), one of leading providers of software and related services to a select group of public and private sector markets, announced weaker-than-expected second-quarter earnings results after the market closed on July 29, and its stock has responded by falling over 2.5% in the trading sessions since. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or if we should wait for an even better entry point in the trading sessions ahead.

Breaking down the weaker-than-expected results

Here's a summary of Constellation's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$3.76	\$3.98	\$3.07
Revenue	\$443.51 million	\$450.46 million	\$415.93 million

Source: *Financial Times*

Constellation's adjusted earnings per share increased 22.5% and its revenue increased 6.6% compared with the second quarter of fiscal 2014. The company noted that these very strong results could be attributed entirely to the acquisition activity over the last year, including 18 acquisitions in the public sector and 16 acquisitions in the private sector, which contributed \$46 million in revenue in the second quarter and more than offset its negative 4% organic growth.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Revenue increased 5% to \$308.3 million in its public sector segment

2. Revenue increased 10.7% to \$135.3 million in its private sector segment

3. Maintenance and other recurring revenues increased 12.3% to \$282.08 million

4. Professional services revenues decreased 3% to \$96.41 million
5. Licensing revenues increased 8.8% to \$33.03 million
6. Hardware and other revenues decreased 8.7% to \$31.99 million
7. Adjusted earnings before interest, taxes, and amortization (EBITA) increased 22.1% to \$99 million
8. Adjusted EBITA margin expanded 280 basis points to 22.3%
9. Net cash flows from operating activities increased 45.6% to \$64.17 million
10. Completed eight acquisitions for aggregate cash consideration of \$112 million

Constellation also announced that it will be maintaining its quarterly dividend of \$1.00 per share, and the next payment will come on October 5 to shareholders of record at the close of business on September 17.

Should you buy Constellation Software on the dip?

It was a great quarter overall for Constellation Software, regardless of what analysts had expected, so I do not think the post-earnings drop in its stock was warranted. With this being said, I think the drop represents a great long-term buying opportunity, especially because it now trades at even more attractive valuations, including 36.4 times fiscal 2015's estimated earnings per share of \$15.99 and just 29.8 times fiscal 2016's estimated earnings per share of \$19.49, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 38.4 and the industry average multiple of 48.7.

With all of the information provided above in mind, I think Constellation Software represents one of the best long-term investment opportunities in the technology sector today. Foolish investors should strongly consider beginning to scale in to positions over the next couple of trading sessions.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

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