



## 3 Reasons to Make Constellation Software Inc. a Core Holding Today

### 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, has been one of the market's top performing stocks in 2015, rising over 68%, and I think it will continue to be over the next several years.

Let's take a look at three of the primary factors that could send its stock higher in both the short and long term, so you can decide if you should establish a position today.

(All figures are in U.S. dollars)

#### 1. Its very strong earnings results could support a higher stock price

On July 29, Constellation released very strong earnings results for its three and six-month periods ending on June 30, 2015, but its stock has responded by remaining relatively flat in the weeks since. Here's a summary of eight of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Adjusted net income increased 30.5% to \$154 million
2. Adjusted earnings per share increased 30.6% to \$7.29
3. Total revenue increased 6.9% to \$866.4 million
4. Revenue increased 4.8% to \$599.2 million in its public sector segment
5. Revenue increased 11.7% to \$267.2 million in its private sector segment
6. Adjusted earnings before interest, taxes, and amortization (EBITA) increased 33.7% to \$192.4 million
7. Adjusted EBITA margin expanded 450 basis points to 22.2%
8. Net cash flows from operating activities increased 23.1% to \$176.8 million

#### 2. Its stock trades at inexpensive forward valuations

At today's levels, Constellation's stock trades at just 36.3 times fiscal 2015's estimated earnings per share of \$16.02 and only 29.9 times fiscal 2016's estimated earnings per share of \$19.44, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 38.4.

I think Constellation's stock could consistently command a fair multiple of at least 38, which would place its shares upwards of \$608 by the conclusion of fiscal 2015 and upwards of \$738 by the conclusion of fiscal 2016, representing upside of more than 4% and 27%, respectively, from current levels.

### **3. It has a 0.9% dividend yield with room for major growth**

Constellation pays a quarterly dividend of \$1.00 per share, or \$4.00 per share annually, which gives its stock a 0.9% yield at today's levels.

A 0.9% yield is far from impressive, but it is also worth noting that the company has maintained this quarterly rate since it first began paying dividends in April 2012, and its strong operational performance, including the aforementioned 23.1% year-over-year increase in net cash flows from operating activities in the first half of fiscal 2015, could allow for a significant increase in the very near future.

### **Is there a place for Constellation Software in your portfolio?**

I think Constellation Software will continue to be one of the market's top performing stocks going forward. Its strong earnings results in the first half of fiscal 2015 could support a higher share price, its stock trades at inexpensive forward valuations, and it has the added benefit of a 0.9% dividend yield with the ability to increase its payment significantly in the near future.

Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions over the next couple of weeks.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

1. TSX:CSU (Constellation Software Inc.)

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