



Why Constellation Software Inc. Fell 3.5% on Thursday

Description

Constellation Software Inc. ([TSX:CSU](#)), one of the leading providers of software and related services to a select group of public and private sector markets, announced its second-quarter earnings results after the market closed on Wednesday, and its stock responded by falling 3.5% in Thursday's trading session. Let's take a closer look at the results and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity or a warning sign.

Breaking down the Q2 results

Here's a breakdown of six of the most notable statistics from Constellation's three-month period ended on June 30, 2017, compared with the same period a year ago:

| Metric | Q2 2017 | Q2 2016 | Change |
|-----------------------------------|--------------------|--------------------|--------|
| Public sector revenue | US\$406.28 million | US\$353.53 million | 14.9% |
| Private sector revenue | US\$193.81 million | US\$175.14 million | 10.7% |
| Total revenue | US\$600.08 million | US\$528.67 million | 13.5% |
| Adjusted EBITA | US\$154.6 million | US\$130.5 million | 18.5% |
| Adjusted net income | US\$112.3 million | US\$89.9 million | 24.9% |
| Adjusted earnings per share (EPS) | US\$5.30 | US\$4.24 | 25% |

The company noted that these strong results were primarily attributable to growth from its acquisitions, but it also noted that it achieved organic growth of 1% in both the second quarter and first half of 2017.

Should you buy Constellation's stock on the dip?

I think it was a fantastic quarter overall for Constellation. However, the results came in mixed compared with analysts' expectations, which called for adjusted EPS of US\$5.42 on revenue of US\$587.85 million, so that's what caused its stock to fall 3.5%.

Estimates aside, I think the decline in Constellation's stock represents a very attractive long-term

buying opportunity, because it's one of the technology sector's best growth stocks. It reported revenue growth of 13.8% to US\$1.16 billion and adjusted EPS growth of 35.7% to US\$9.76 in the first half of 2017 compared with the year-ago period, and current estimates call for revenue growth of 12.7% to US\$2.4 billion and adjusted EPS growth of 17.4% to US\$21.89 in the full year of 2017, which I think it could easily achieve.

Furthermore, Constellation has been highly active when it comes to making acquisitions, including 16 acquisitions that were completed for aggregate cash considerations of US\$71 million in the second quarter, and I think it will continue to do so going forward, which will help fuel future growth.

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 using the post-earnings weakness to begin scaling in to long-term positions.

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