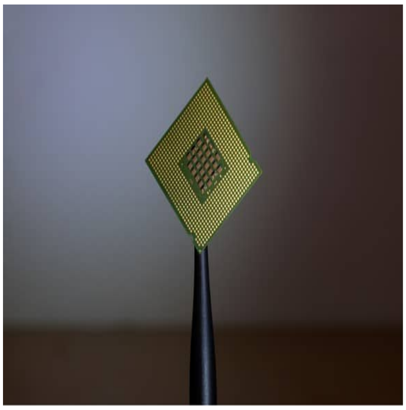

After the Drop, Is This High-Flying Technology Stock Excellent Value?

Description

At the moment, when most people think of hot technology stocks, they tend to think of **Shopify**. But there are many stocks that are not as famous listed on the exchange. Many of these companies actually have earnings, growing revenues, and solid balance sheets. One such company is **Constellation Software** (TSX:CSU), a company that has continued to deliver financially for several years.

Constellation Software offers software service and products to both the public and private sector and makes up the two operating segments of the company. It is involved in acquiring companies then using them to provide software and services to public and private sector business. It has offices and operates in many countries around the world.

In Q3 2018, Constellation grew revenues by 25% and net income grew by 2% over the previous year. Most of this growth was due to acquisitions, although a solid 4% was organic. The biggest negative was cash flow from operations that, while still positive, experienced a decrease of 13% over the previous year. The results were not as good as investors anticipated, though, and led to a decrease in the share price.

Amazingly, even though the company has made many acquisitions, its balance sheet remains strong. It can sometimes be tempting for companies engaging in growth by acquisitions to take on a lot of debt for funding, but Constellation tries to keep its balance sheet strong with enough cash to cover all of its debt if needed.

The company pays a dividend, although, because of its impressive share price appreciation, it is very small at only 0.24% at the current share price. The dividend has not been raised in many years, though, as the company has sought to put its cash into developing its business. Although this keeps the balance sheet strong and ready for further acquisitions, it may not attract dividend investors who want their payouts to grow over time.

Even though the company appears to be a good operator and maintains a decent balance sheet, investors should be aware of a few risks with the name. The biggest risk also has to do with one of its sources of success: it grows significantly through acquisitions. It has a good track record of incorporating the assets it acquires, but if there are any problems with acquisitions in the future, it could cause some trouble for the stock.

The second issue is related to the first, in that the stock is fairly expensive, as investors have chased the stock due to its growth. Once again, if the company stumbles, there is a good chance that the stock price could come off quickly. That being said, these risks are pretty standard for any growth company, especially ones that grow through acquisitions.

That being said, Constellation Software has been very successful at executing its strategy for several years and has rewarded shareholders with significant capital appreciation. At this point, Constellation Software is probably a little expensive. But if the stock were to pull back further on a general market retreat and you were looking for a Canadian technology company to add to your portfolio, this may be one company you could consider.

CATEGORY

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