



Is This Canada's Top Tech Stock?

Description

Canada's technology industry pales in comparison to the United States's industry. Tech stocks account for more than a quarter of the U.S. S&P 500, tops among all industries. In Canada, the tech industry accounts for a mere 3.9% of the TSX Index. This is one of the key reasons [why the TSX has lagged](#) the U.S. markets for the better part of the past few years.

There are, however, some gems to be had in the space and Canada's tech stocks should not be ignored. Whereas the U.S. has its FAANG stocks, Canada has its basket of high flyers recently termed DOCKS, one of which is **Descartes Systems Group** ([TSX:DSG](#))([NASDAQ:DSGX](#)).

Descartes is a global leader in on-demand, software-as-a-service solutions focused on improving supply chain management and business security. The company has a growth-through-acquisition strategy and can be categorized as a serial acquirer. Descartes has completed 41 acquisitions since 2006.

Recent earnings

On Wednesday, Descartes reported mixed second-quarter earnings. The company's earnings per share (EPS) of \$0.11 beat estimates by \$0.01, while revenues came in at \$67.11 million, \$0.46 million below estimates. Revenues increased 17.7% year over year, while EPS grew 22% over the second quarter of 2018.

The company closed on another two acquisitions in the second quarter — Velocity Mail and PinPoint. Velocity Mail's network simplifies the shipping operational processes for air carriers, ground handlers and postal authorities. PinPoint provides shipping companies with fleet location and tracking technologies. The PinPoint acquisition bolsters Descartes logistics technology offerings for electronic logging devices.

Although the company does not provide guidance per se, it refers to calibration as a means to account for baseline and recurring revenues. In the third quarter, Descartes's calibration revenues are expected to be approximately \$65.5 million. This is up from \$62 million in the third quarter of 2017.

Performance

Descartes has earned its place among Canada's top tech stocks thanks to its blistering performance. Over the past five years, the company's share price grew at a compound annual growth rate (CAGR) of 56.4%. Year to date, the company has returned 26.24%, which places it among the top five tech performers on the TSX Index.

Looking forward, the company is expected to grow EPS by 37.62% next year and by a CAGR of 20% over the next five years. This places it second among TSX-listed tech stocks. Only **Shopify** is [expected to eclipse](#) these growth rates.

Valuation

This is where the company falls a little short. Trading at a current price-to-earnings (P/E) multiple of 100, a forward P/E of 59 and 10.6 times sales, the company is one of the more expensive options in the industry. However, Descartes still trades below Shopify's metrics. Although it's normal for high-flying stocks to trade at high valuations, they are also more susceptible to a market downturn. With that in mind, there is little margin of safety given Descartes is currently trading at a high premium.

There is no question that Descartes belongs in the conversation for Canada's best tech stock. The company has proven it is adept at integrating its many acquisitions, and, as a result, shareholders have been well rewarded. At current valuations, however, there is greater risk involved in the event of a market crash.

CATEGORY

1. Investing
2. Tech Stocks

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1. Editor's Choice

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