U.S. vs. Canadian Tech Stock Show-Down: Which Should You Own?

Description

Pitching a Canadian tech stock against a U.S. one never feels like an even battle: while our stocks are usually more attractively valued, theirs are often bigger, have larger market shares, and are part of a stock market sector that sees massive international investment. While there is little wonder that U.S. and Canadian tech stocks should have such hugely varying valuations, there are still enough points of similarity to allow for comparisons across the two groups; the pairing below offers an example of this intersection.

Computer Modelling Group (TSX:CMG)

Overvalued by +50% of its future cash flow value, this champion of Canadian tech stocks is a bit too rich for general consumption at the moment. With overheated multiples such as a P/E of 30.8 times earnings, PEG ratio of 2.7 times growth, and per-asset valuation demonstrated by a P/B of 11.8 times book, it really is too expensive for the casual investor right now. That said, if you are into your tech stocks, it's not too badly priced, and it certainly wins out over most of its American counterparts in some respects.

An 11.2% expected annual growth in earnings does look attractive, though, and should be considered by growth investors who like tech stocks for their upside. A dividend yield of 5.1% and no debt sure look good as well. In fact, as far as tech stocks go on any North American stock exchange, this has to be one of the healthiest in terms of balance sheets. While momentum has been downhill since the summer, a 38% ROE last year is pretty amazing for the TSX index as a whole and makes for a high-quality alternative to the FAANGs, which have taken such a beating this fall.

Netflix (NASDAQ:NFLX)

Speaking of FAANGs, the "N" in that acronym is overvalued by six times its future cash flow value today, with a truly hideous P/E ratio of 103.9 times earnings. While a PEG of 2.8 times growth isn't too bad (though bear in mind that it's rare to see a PEG higher than three), and it has a P/B of 26.3 times book. Its upward momentum has seen notable plunges in the last few weeks should give even trigger-happy growth investors pause for thought.

So, what's the draw of this stock? A 37.6% expected annual growth in earnings in a verified market is why investors are still eyeing (and buying) this overpriced ticker. A lack of dividends makes the previous stock look all the more attractive, though, and a high return on equity of 25% doesn't make up for a whopping debt level of 166.4% of net worth. There's something here for hunters of upside, though, and the entertainment market is definitely leaning in Netflix's favour.

The bottom line

A recent article floating around the internet extols the virtues of Netflix's fundamentals; this is either a joke or a mistake. Investors looking for value should steer well clear, while growth investors purely in it for the upside may want to pause and look elsewhere for bigger margins. That said, Netflix does seem to have a great future, with the global economy leaning towards affordable at-home entertainment as a growth industry. Newcomers to tech stocks may want to think about adding the Canadian alternative listed here instead, however, if they simply want North American tech for a diversified growth portfolio.

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