



Investors: Inject Some Growth Into Your Portfolio With These 3 Tech Stocks

Description

Many investors lament Canada's poor technology sector.

In terms of sheer numbers, they have a point. There are hundreds of U.S.-based technology stocks. The U.S. markets are the world's best, so any technology company that wants access to the biggest pools of capital must at least consider a listing on the NASDAQ. Many Canadian tech companies have done just that.

But there are a few problems with investing in U.S.-based technology names. The big one is currency. The U.S. dollar has strengthened against the loonie over the last few years, which is been good news for Canadian investors looking at their returns in local currency. But if the opposite happens over the next few years, Canadian investors would experience a major drag on returns.

Instead, Canadian investors should focus on our own technology sector. Although we don't have many big names everyone has heard of, we do have a few companies who are quietly rewarding long-term shareholders with some stellar returns.

Here are three of Canada's best technology stocks.

The Stars Group (TSX:TSGI)(NASDAQ:TSG)

Stars Group has become a powerhouse in online gaming. After acquiring PokerStars and Full-Tilt Poker in 2014, the company has followed that up by purchasing another big operator, Sky Gaming. This new conglomerate will do approximately US\$2.5 billion in annual revenue.

The company has successfully diversified itself away from poker, too. PokerStars introduced sports betting and casino games, both of which were embraced by customers. The Sky acquisition has further diversified the company away from poker. These days, poker games account for only a third of Stars's revenue.

Gaming is a good business. The company enjoys EBITDA margins of approximately 33%. Even after paying for the interest on its debt and depreciation, there's still plenty of profit left over. Management

expects 2018's earnings to come in around US\$2 per share, putting the stock at just over 10 times earnings.

Constellation Software ([TSX:CSU](#))

Constellation is another growth-by-acquisition story, but this one's a little different.

CEO Mark Leonard is a breath of fresh air in a world filled with empty promises and excessive self-promotion. The man simply goes to work each day and looks for software companies to buy. He's laser-focused on getting a good deal, refusing to pay a nickel more than he absolutely has to. These companies are then added to Constellation's ever-growing portfolio, where other cost efficiencies are squeezed out of them to maximize profits.

Constellation has quietly grown into a behemoth. It has a \$19 billion market cap and it recorded nearly US\$3 billion in revenue in its last four quarters. And despite acquiring hundreds of software companies over the last decade, the company hasn't issued a single share.

Descartes Systems ([TSX:DSG](#))([NASDAQ:DSGX](#))

Descartes is a provider of software for the transportation and logistics industries. Essentially, the company helps delivery companies move stuff around in a more efficient manner. It's easy to see how this is a growth industry in today's world.

Descartes has also been a growth-by-acquisition story. The company has acquired 41 different companies since 2006, increasing its annual revenue from US\$59 million to US\$257 million. Cash flow has also increased, settling in at US\$81 million in the past year.

Shares are hardly cheap — they trade hands at 42 times forward earnings expectations — but you've got to like Descartes's high margins, its steady subscription business model, and its potential to make more acquisitions to grow the company.

The bottom line

You don't need to go stateside to get some tech growth in your portfolio. These three companies have radically transformed themselves from small players to major technology studs. All three have additional opportunities to grow their bottom lines, too. You won't want to miss out on this opportunity to add them to your portfolio.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:DSG (The Descartes Systems Group Inc)

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