Overbought Tech Stock Round-Up: The Best-Valued 1 May Surprise You

Description

Tech stocks may be underrepresented on the TSX index, but what we do have packs a mean punch. The so-called DOCKS stocks may not have quite the same momentum as the American FAANGs, but there's still plenty of overvaluation on display on the following three representative stocks. It's a good a time as any to plug some numbers into the computer and see what comes out at the other end.

Constellation Software (TSX:CSU)

A future cash flow value discount of 22% doesn't mean all that much when you start looking into the multiples for this favourite of the TSX index tech brigade. Constellation Software has enjoyed some past-year growth in earnings to the tune of 30.7%, beating the industry average of 7.9% for the same period as well as its own five-year earnings growth of 22.8%.

That positive expected annual growth in earnings is set to continue, though at a reduced rate at 14.1% for the next one to three years, while a high ROE of 39% and so-so debt level of 56% of net worth suggest it could be prudent to stick around.

Matching market variables with passive income doesn't look that great here, though, with a high P/E of 52.3 times and bloated P/B of 20.3 times making a small dividend yield of 0.59% look a little unappealing. Momentum investors will have to decide for themselves whether there's enough upside to make this a strong capital gains play, meanwhile.

Open Text (TSX:OTEX)(NASDAQ:OTEX)

A steady flow of insider selling over the past year may be indicative of the reason why Open Text is the best-valued stock on this list today, despite a positive one-year past earnings growth of 62% that beat its own five-year average of 17.3%.

Overvaluation is indicated by a high P/E of 37.8 times and P/B of 2.5 times — although these are both fairly low by tech stock standards. While a dividend yield of 1.77% may be moderate for the TSX index, a decent 33.2% expected annual growth in earnings is also on the cards, making this stock a good choice for growth investors who like a bit of passive income.

But the prize for momentum goes to…

Compare the above with a tech stock that doesn't pay any dividends, **Descartes Systems Group** (TSX:DSG)(NASDAQ:DSGX), and you'll see that there's no real rhyme or reason to Canadian tech stocks. Aside from the fact that they are all overvalued in terms of their actual assets, the difference in operations for each stock seems to show that simply lumping companies together in the "software" bin can lead to difficulties in accurate comparison of value.

There's difficulty in seeing that Descartes Systems Group is overvalued, though: a P/E of 71.6 times and P/B of 4.1 times exceed the market by considerable margins, while its share price is overvalued around a fifth of its future cash flow value.

The bottom line

Open Text is the best valued of the three stocks listed here today. It competes quite well with the other two stocks, even beating Descartes Systems Group's 24.7% expected annual growth in earnings. However, if you're looking for momentum on the TSX index, the latter stock is the better buy.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NASDAQ:OTEX (Open Text Corporation)
3. TSX:CSU (Constellation Software Inc.)
4. TSX:DSG (The Descartes Systems Group Inc)
5. TSX:OTEX (Open Text Corporation)

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