



DOCKS: Canada's Tech Stocks Rival America's FANGs

Description

America's technology stocks have become so dominant and intertwined in recent years that it makes sense for investors to bundle them under a single acronym. **Facebook, Apple, Netflix, and Google**, the so-called FANGs, all have an iron grip on their respective industries and have headquarters located in the same valley.

Collectively, FANG stocks contributed much of the **S&P 500's** growth over the past decade. All four are worth hundreds of billions of dollars in market capitalization and generate billions in free cash flow every quarter. FANGs have outperformed the main S&P 500 index as well as the general technology sector. They're a unique force of nature in the capital markets.

The success of these companies indicates the tremendous power of a software-based business model. A successful piece of software can be easily protected from rivals and infinitely distributed without costs. In other words, once the company spends on research and development upfront, the marginal costs of distributing the same solution is nearly zero.

This moat has been replicated by some of Canada's most exciting technology companies. The five largest and fastest-growing tech stocks listed in Toronto — **Descartes** ([TSX:DSG](#))([NASDAQ:DSGX](#)), **Open Text** ([TSX:OTEX](#))([NASDAQ:OTEX](#)), **Constellation Software** ([TSX:CSU](#)), **Kinaxis** ([TSX:KXS](#)), and **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) — are now being collectively called DOCKS.

DOCKS stocks are a little more concentrated and a little less exciting than their American counterparts. All of them are enterprise software providers rather than consumer-facing companies. In fact, Kinaxis and Descartes are both focused on the same industry — logistics.

Both companies provide cloud-based platforms that help corporations from across the world manage complex supply chain operations like customs filings, fleet management and document management. Both stocks have delivered double-digit compounded returns for shareholders over the past five years, and there's no reason to believe the growth engine is running out of steam just yet.

Constellation Software, meanwhile, is a holding company that fuels growth by acquiring vertically integrated small software firms from across the world. The management team is surprisingly good at deploying this growth-by-acquisition strategy. Over the past 10 years, the company's market capitalization has grown from \$500 million to \$20 billion. Shareholders who've held on to the stock for

that period have enjoyed a better return than **Amazon**.

Open Text dominates the enterprise content management space. Sales have doubled over the past six years, while the stock has delivered a compounded annual return of 22% over the same period. However, that growth rate has slowed considerably in recent years, and investors should keep an eye out to see if the management can reignite the company's prospects this year.

Finally, Shopify is perhaps the most well-known Canadian tech stock at the moment. The \$24 billion company is a juggernaut in the e-commerce world, with nearly half a million merchants using its platform and over 2,200 apps currently listed on its e-commerce app store. The company isn't profitable yet, but the services have incredibly wide gross margins and sales are expanding at more than 70% annually.

Shopify is the most volatile and vulnerable of the DOCKS. Competitors, including Amazon, are fast [approaching its turf](#). Rivals have deeper pockets, regular profits, and a wider base of developers. The subscription-based business model is easily replicated and doesn't have an intrinsic moat yet. The rest of this group is remarkably stable and cash flow positive. Constellation and Open Text even pay dividends.

Bottom line

Altogether, Canada's DOCKS are a fascinating mix of intense growth, defensible moats, recurring incomes, and proven business models. With the recent correction in the tech sector, investors should take a closer look to see if these star performers are finally worth the price of entry.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NASDAQ:OTEX (Open Text Corporation)
3. NYSE:SHOP (Shopify Inc.)
4. TSX:CSU (Constellation Software Inc.)
5. TSX:DSG (The Descartes Systems Group Inc)
6. TSX:KXS (Kinaxis Inc.)
7. TSX:OTEX (Open Text Corporation)
8. TSX:SHOP (Shopify Inc.)

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