3 Tech Darlings to Scratch Your Growth and Value Itch

Description

I'd imagine that when most investors hear of tech stocks, they immediately think of rapidly-growing companies with mediocre profitability numbers and out-of-this-world valuations. While this is true in many cases, especially with the high-flying names you hear the talking heads on TV discussing ad nauseum, there's a certain basket of "value" tech stocks that have mostly fallen out of favour with the average growth investor.

At a certain point in a growth company's lifecycle, the top line growth numbers begin to decelerate, and the valuation metrics come down to earth, as the stock crosses the line between growth and value. Now, some investors out there describe themselves as either growth- or value-oriented. The two seemingly polar opposite investment styles, however, are not mutually exclusive. In fact, they may be better suited for a wider audience of investors, as they'll cater to both the growth and value-oriented.

It's the stocks that have fallen out of favour that I believe may be the most misunderstood, potentially paving the way for a discrepancy between a stock's market value and its intrinsic value. These are the types of tech stocks that Warren Buffett has been betting on of late, after decades of shunning the entire industry in favour of easier-to-understand businesses.

Without further ado, consider the following three Buffett-style value tech stocks that I believe have plenty of gas left in the growth tank:

CGI Group (TSX:GIB.A)

If there's a tech stock you can consider unsexy, CGI Group is probably at or around the top of the list. For those unfamiliar with the name, the company is engaged in global IT consulting, systems integration, outsourcing, and the like.

While the company definitely isn't on the cutting edge of game-changing next generation tech that'll disrupt your world, the company is continuing to pull in impressive amounts of cash, and despite being a fairly old company that most investors have moved on from, the company still posts some pretty impressive growth numbers.

The stock has slowly and steadily soared over 150% over the last five years, and despite being a tech play, the company has endured minimal amounts of volatility during its steady bull run.

Constellation Software (TSX:CSU)

For those looking for a bit more growth and some instant diversification in the world of tech, Constellation is the horse to bet on. The company's talented management team is always on the lookout for the next big up-and-comer with cash on hand to pursue M&A opportunities.

You can think of Constellation as a massive-scale venture capitalist (VC) firm with an emphasis on Canadian technology firms, as a handful of the acquisitions made by Constellation are well below the $5 million mark.

As you may know, small up-and-coming tech plays have the potential for massive growth, but they're considerably more risky, especially for those with no background in VC. If you're at all enticed by the tech-based ventures on shows like *Shark Tank*, Constellation is a solid bet because you're getting exceptional stewards who know how to track down "moonshot" opportunities across the nation. The result? Astoundingly high double-digit ROE numbers (43.8% for TTM), and enhanced investor returns (314% over the past five years).

Tucows (TSX:TC)(NASDAQ:TCX)

The oddly-named company is a rare gem that's buried in the TSX. The IT services company is the second-largest provider of domain registrar services, a stable utility-like business, and although the company may be seen as boring, Tucows has a few tricks up its sleeve to fuel safe, sustainable growth.

The stock has soared 50% since the depths of November 2018, a time that I was pounding the table (I did so several times) on the company that I believed was unsustainably undervalued.

You see, Tucows' main IT service business isn't too attractive for the growth-oriented investors, but when you consider the growth potential behind Ting (Tucows' rapidly growing telecom subsidiary) and the "safety net" of the domain business, you get the perfect cocktail of both growth and value.

Although the stock has been one of the hottest names over the past few months, I still think the stock is worthy of your investor dollars, even more so on a market-wide pullback.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:TCX (Tucows)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:GIB.A (CGI)
4. TSX:TC (Tucows)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/06/30
Date Created
2019/02/08
Author
joefrenette