



Better Tech Stock: Shopify Inc (TSX:SHOP) vs Constellation Software Inc (TSX:CSU)

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Constellation Software Inc** ([TSX:CSU](#)) are both success stories in their own right. Both stocks have provided market-beating returns to investors over the past few years. Shopify's stock price has increased by more than 550% since its IPO in 2015. Meanwhile, CSU's stock price grew by more than 340% over the past five years.

With such remarkable runs, investors naturally want to know how far these tech giants can climb, and of course, whether one is a better option than the other. Let's dig in and see which stock investors are better off buying at this point.

The case for Shopify

At first glance, it may seem as though Shopify has more growth potential than CSU. The Ottawa-based tech firm is still relatively new on the stock market while — as some might argue — CSU may have already reached a plateau, or is at least much closer to it. However, being the new kid on the block isn't the only argument in Shopify's favour.

There are at least two main factors that have helped spearhead Shopify's recent success — factors that will continue to be important growth engines for the company. First, the e-commerce industry is growing quickly. This growth provides e-commerce companies with a unique opportunity, but only if they can position themselves accordingly. Second, Shopify's focus on business owners — while offering several innovative ways for their clientele to stand out among the growing number of online business offerings — proved to be a winning strategy.

Shopify's recent fourth-quarter results showed increases in both of its main business segments. The company's subscription solutions revenue grew by 42%, while merchant solutions revenue grew by 63%. These increases were driven primarily by Shopify's increasing client base and merchandise volume. While Shopify will keep on [battling other e-commerce giants](#) such as **Amazon** and **eBay**, the company boasts a platform that these juggernauts do not, which should help Shopify acquire a larger share of a very specialized market. In other words, Shopify is likely not finished growing.

The case for Constellation Software

To the casual onlooker, Constellation Software appears to be an average company providing software services. CSU is an expert at identifying companies with growth potential to acquire, however, and this strategy has proved to be very successful over the years. This business model can sustain long-term growth. There is, after all, no shortage of software companies to acquire. As of this writing, CSU and its subsidiaries have a hand in over twenty industries, from financial services to real estate.

CSU benefits from various competitive advantages. The company's software offerings typically come as subscriptions and carry high switching costs. These factors mean that CSU generates a steady stream of revenues regardless of economic conditions. The company's latest earnings report — Q4 and full year 2018 — were strong. CSU's revenue grew by 21%, while adjusted net income and cash flow from operations increased by 33% and 28%, respectively. Full-year results were equally impressive with increases in revenue, net income, earnings per share, and cash flows from operations.

CSU currently offers a dividend yield of 0.48%. While that does not seem like much — indeed, it is lower than the average for most indices — the dividend yield is expressed as a percentage of the company's stock price. CSU's stock price is currently over \$1,000, making a 0.48% yield amount to a higher dividend payout than most other companies offer. CSU is not focused on dividend growth, however, so it is doubtful whether the company's dividends can tip the scale in its favour.

The bottom line

Over the past few quarters, Shopify has expanded to new countries and released versions of its platform in several languages. If Shopify can manage to acquire a large share of the e-commerce market in such regions as France, Spain, Brazil, and others, the company's stock will continue to skyrocket.

CSU's main growth engine is its ability to acquire smaller firms. The software company has enough brand recognition and generates enough cash to continue doing so. There is no reason why CSU cannot reach new heights.

However, Shopify's gets my vote given the enormous growth potential in the e-commerce sector and the company's innovative approach to this growing market.

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