4 Tech Stocks Canadians May Want to Hold On to Through a Recession

Description

The more practical side of the tech industry is likely to be a source of solutions to potential widespread financial risk, with agri-tech, FinTech, automated mechanical systems, electric vehicles, gaming, and AI being obvious examples.

However, any overvalued stock is at risk of losing value during a recession, while any stock holding high debt is also a potential liability, depending on the depth and duration of a downturn. So, with uncertainty clouding the horizon for the year ahead, should investors stay away from stocks that signal overvaluation with little passive income or momentum? Let's take a dive into some of the data and find out which tech tickers to hold on to.

Descartes Systems Group (TSX:DSG)(NASDAQ:DSGX)

This cornerstone of Canadian tech stocks on the TSX index has a decent track record, with a one-year earnings-growth rate of 14.2% that's more or less in line with a five-year average rate of 18.9%. The data is mixed for Descartes Systems Group, but it's mostly positive. A healthy balance sheet is indicated by a low level of debt at 9.7% of net worth, and it should interest the momentum investment crowd with a 25.3% expected annual growth in earnings.

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

The one tech stock to own if you only own one tech stock, Open Text is a TSX index ticker to be proud of. It had a great year, with a solid earnings growth of 37.9%, which picks up the pace from its half-decade earnings growth of 12.1%. Rare for a techie, it pays a dividend yield of 1.64% and has high growth ahead, clocking in at an expected 30% annual growth in earnings. Overvaluation is signaled by its P/E of 38 times earnings and P/B of 2.6 times book with plenty of potential upside on the way.

Nvidia (NASDAQ:NVDA)

A visual computing stock par excellence, Nvidia is the one to buy if you are into gaming or if you want to get in on a multi-billion-dollar e-sports boom. It does mean heading on over to the NASDAQ to do so, where that industry is better represented, but if you can see past Nvidia's steep per-asset overvaluation, then it may well be worth the punt.

An 82% one-year past earnings-growth rate beats an already impressive five-year rate of 50.4%, and in terms of quality, Nvidia has it in spades, as is evinced by a past-year ROE of 50%. It's a healthy stock, carrying debt of 21% of net worth, and even pays a dividend yield of 0.42%. An acceptable P/E of 19.8 times earnings adds to the reasons why Nvidia is a hot tech stock right now.

Ceridian HCM Holding (TSX:CDAY)(NYSE:CDAY)

A stock on a tear, Ceridian HCM Holding is up 4.1% in the last five days. It's fairly healthy, with debt 43.8% of net worth just over the danger threshold, though it's overvalued by more than double the future cash flow value. With no dividends on offer at this stage, buying Ceridian HCM Holding stock is purely a capital gains play; however, with a 104% expected annual growth in earnings, it definitely makes the cut for a high-growth portfolio.

The bottom line

The main downside to tech stocks is their valuations — from Descartes Systems Group's P/E of 83.2 times earnings and P/B of 4.8 times book to Nvidia's P/B of 9.8 times book and PEG of 10.8 times growth — but the fact is that tech investment remains popular with short-term traders looking for upside. However, Canadian investors may want to change their positions on FAANG-alikes and stick with more practical choices like the ones above.

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TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NASDAQ:NVDA (NVIDIA Corporation)
3. NASDAQ:OTEX (Open Text Corporation)
4. NYSE:CDAY (Ceridian HCM Holding Inc.)
5. TSX:DSG (The Descartes Systems Group Inc)
6. TSX:OTEX (Open Text Corporation)

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