Can Canadian Tech Stocks Offer Investors High Growth?

Description

Technology is a growth industry unlike any other: From electric vehicles to new smartphones and social media platforms, from the Internet of Things to artificial intelligence, no other sector can claim so potentially revolutionary an effect on our future.

But while American tech stocks like the famous FAANGs have offered brave investors the chance of almost unlimited upside, can Canadian tickers like the DOCKS come through with high growth? Below are four representative stocks on the TSX index that might fit the bill.

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

A seemingly solid all-round ticker, Open Text at a glance is healthy, decently valued, has a passable track record, has some growth ahead of it, and pays a bit of a dividend. However, let's drill down into the data and see if this brief appraisal is on the money.

A one-year past earnings growth of 37.9% more than doubles a five-year track record of 12.1% and is set to run on into an expected 30.3% annual growth in earnings over the next couple of years. Open Text carries debt at 69.1% of its net worth, however, and insiders have only sold shares in the last three months. Meanwhile, overvaluation is shown by a P/E of 38.3 times earnings and P/B of 2.6 times book.

Constellation Software (TSX:CSU)

Up 5.75% in the last five days at the time of writing, Constellation Software is one of the most popular tech stocks on the TSX index. Like Open Text, it had a good year in terms of earnings, with a one-year growth rate of 70.9% trouncing its already solid five-year rate of 24.5%.

However, while its debt level is lower at 42.5% of net worth, it's more overvalued — see a high P/E of 49.1 times earnings and more concerning P/B of 21.5 times book. With a low dividend yield of 0.45%, and minimal 8.9% expected annual growth in earnings, it might not be worth the punt.

Ballard Power Systems (TSX:BLDP)(NASDAQ:BLDP)

Though a negative one-year past earnings growth rate is mitigated by a positive five-year average growth of 13.3%, that 12-month rate isn't as high as those of the previous two stocks, and Ballard Power Systems is still overvalued by around 50% of its future cash flow value.

And now for the good news: this stock is squeaky clean, with low debt at 5.6% of net worth, and while it's overvalued, it beats the previous two tickers with a P/B of 5.8 times book. Though it pays no dividends, its outlook is what counts, with an expected 60.8% expected annual jump in earnings.

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

Up 2.16% in the last five days, this is another popular tech stock, though its growth rates have been lower than the top performers in the industry with a 12-month earnings growth of 14.2% and five-year rate of 18.9%. Valuation is mixed, with a high P/E of 86.4 times earnings and so-so P/B of five times book. A healthy stock with just 9.7% of debt, Descartes Systems Group is expecting a 23.8% annual earnings growth.

The bottom line

If you're looking for a company that knows how to generate earnings growth with investments, Constellation Software's expected ROE in the next three years is a significant 67.8%, and follows on from a 44% return on equity over the past year. However, Ballard Power Systems has the best outlook of all four stocks.

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