



Is It Too Late to Cash in on This Growth Stock?

Description

Constellation Software ([TSX:CSU](#)) keeps beating the odds. The Toronto-based software company has been the [quintessential growth stock](#), offering investors a compound annual growth rate of about 36% since 2006. No doubt CSU has already made many investors wealthy, but some think the company has little growth left in its tank.

Trading at a little over \$1,170 a share at the time of writing, there may be better (and cheaper) options for investors looking for stocks to buy and hold for a long time. Still, CSU must be doing something right; let's look at how CSU has managed to earn such market-beating returns, and whether the company can continue growing.

Growth through acquisitions

Constellation Software has managed to achieve its current status in its industry through acquisitions. The company expertly chooses leading vertical market software providers to add to its portfolio. The structure of CSU's business model has helped the company build a strong competitive advantage. The firms under its umbrella — which are successful even preacquisition — are made even stronger by CSU's partnership and guidance.

Further, Software as a service (SaaS) is an indispensable aspect of almost every industry in today's technologically driven world. Software packages often come with subscriptions (which can be in place for years) and high switching costs. CSU took advantage of these features to continue growing revenues and profits. Over the past five years, CSU's revenues have grown by 20%, while operating income and net income have increased by 33% and 32%, respectively. Over the same period, the company's share price soared by about 435%.

Is Constellation Software overvalued?

CSU probably isn't a value stock, and while the company issues dividend payouts (a low dividend yield of 0.45% adds up to high payouts given the company's stock price), its dividends have remained the

same for over 10 years. With a consensus (average) price target that is more than \$150 less than its current price, some are worried that CSU might be significantly overvalued.

The company currently trades at 29.66 times future earnings. Its price-to-sales and price-to-book figures are also higher than the average, currently sitting at 7.98 and 28.28, respectively. Normally such high valuation figures would be more than reason enough to avoid a stock at all costs, but recent history has proven that CSU is no average stock. Considering its run on the market, it's understandable why the Toronto-based firm is able to garner such premiums.

Should you pull the trigger?

CSU's operations extend to five continents, over 100 countries, and more than 100,000 customers. The company likely isn't done making acquisitions, which means there's more room for growth. CSU's strong competitive advantage means earnings can keep increasing for years. However, while CSU may have more successful years ahead, there are definitely cheaper options for growth investors to consider.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

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

Category

1. Investing
2. Tech Stocks

Date

2025/08/25

Date Created

2019/04/08

Author

pbakiny

default watermark