



Is This 1 of the Best Stocks to Buy Right Now?

Description

Shares of **Constellation Software** ([TSX:CSU](#)) have been on a tear this year. The stock is up 48.5% year to date. Constellation has been a solid wealth creator for investors. The stock has returned 362% in the last five years and a whopping 5,000% since its IPO (initial public offer) in 2007. The company managed to hold its own, even during the 2008 recession, and hardly declined in market value during that tumultuous period. CSU also outperformed markets in 2018, when several tech stocks lost significant market cap. So, is Constellation stock likely to move higher going forward, or is it due for a correction?

Why CSU investors should be watchful?

A company's revenue and earnings growth are two primary drivers of its stock price. Analysts expect CSU's sales to grow by 15.3% to \$3.53 billion in 2019 and 15.5% to \$4.08 billion in 2020. Comparatively, its earnings growth is expected to rise by 8.2% to \$30.49 in 2019 and 21.6% to \$37.09 in 2020. Constellation's stock is trading at a forward P/E multiple of 34, which suggests that it's currently overvalued.

So, analysts can expect volatility if CSU misses earnings and revenue estimates in the upcoming quarters. CSU shares will also experience a significant correction if it provides a tepid guidance. Further, analysts are also worried that technology spending will be muted in the second half of 2019 due to a sluggish global economy. This is likely to impact CSU's sales.

Constellation's long-term outlook remains solid

CSU's revenue growth over the years has been driven by inorganic growth. CSU's website states that it identifies leading companies with annual sales of \$5 million and revenue growth of 20% annually. CSU's target companies also have robust profit margins. These acquisitions have helped CSU to diversify its portfolio, making it a niche software player. In the last five years, CSU has managed to grow revenue by 83%. Its bottom line has improved at a far higher rate of 268% in this period.

While there are some near-term concerns for Constellation, including its lofty valuation, the company's long-term outlook remains solid. Constellation provides its portfolio of software products via subscription services to customers. It has a high retention rate among enterprises due to high switching costs. This indicates that CSU will have a stable stream of recurring revenue even in the case of an economic downturn.

Constellation Software [remains an expert in identifying companies](#) to acquire. It can continue to do so as it has a cash balance of \$200 million. CSU's overvaluation has long been a concern for investors and analysts. But the stock price has historically managed to beat analyst forecasts and march higher.

CSU investors were rattled when the stock lost 25% between July 2018 and December 2018 after it [missed analyst earnings and revenue estimates](#). However, Constellation Software shares wiped out these losses and have outperformed markets once again this year.

Analysts are cautious on CSU. They have a 12-month average target price of \$987.26 on the stock, indicating a downside potential of 22% from its current price. CSU continues to be a safe bet for investors. They need to buy the stock at every major price dip.

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