



## 2 Overvalued Stocks to Sell Right Now

### Description

The **Horizons S&P/TSX 60 Index ETF** is currently trading at \$36.6 at writing, which is just below its 52-week high. So, does this mean that it's time for investors to be cautious, as the ETF is trading near all-time highs?

The ETF isn't the only stock that's overvalued at the current price and are bound to undergo a correction in the near term.

### Constellation Software

Shares of Canada's tech heavyweight **Constellation Software** ([TSX:CSU](#)) are trading at \$1,286, which is just 3% below its 52-week high. CSU is estimated to grow sales by 14.2% to \$3.5 billion in 2019 and by 16.1% to \$4.06 billion in 2020.

The company is estimated to grow earnings per share (EPS) by 3.1% in 2019, 26.1% in 2020 and at an annual rate of 14.7% in the next five years. Compare this to CSU's forward price/earnings multiple of 35 and we can see that the stock is overvalued at the current price.

Further, CSU is valued at \$27.2 billion which is 7.8 times 2019 sales. The stock has gained a staggering 379% in the last five years and is trading at a premium. Its earnings growth is decelerating. In the last five years, CSU managed to grow EPS at an annual rate of 17.4%.

Analysts have a 12-month price target of 1,038.24, which is 19% below its current trading price. CSU reported its second-quarter earnings last month. Its earnings per share of \$6.49 were [10.5% below analyst estimates of \\$7.25](#).

Despite the earnings miss, however, CSU stock lost just 0.3% in market value on earnings day. Although the company will continue to grow via acquisitions, as has been the case for several years, it's time for investors to take a step back and see whether it's worth investing in CSU at the current price.

## Royal Bank of Canada

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) is one of Canada's largest banks. The stock is trading at \$103.9 at writing, which is 3.7% below its 52-week high.

RY is estimated to grow sales by 9% to \$46.4 billion in 2019 and by 2.1% to \$47.37 billion in 2020. The company is estimated to grow earnings per share (EPS) by 3.9% in 2019, 4.8% in 2020 and at an annual rate of 4.6% in the next five years.

RY stock is trading at a forward price-to-earnings multiple of 11. While this isn't too expensive, we can safely say that RY is trading at a premium given its long-term earnings growth forecast. RY shares are overvalued by at least 40% even after accounting for its dividend yield of 1.7%.

The stock has gained just under 30% in the last five years and has underperformed the broader markets. RY's earnings growth is decelerating. In the last five years, the bank managed to grow the bottom line at an annual rate of 7.9%.

Analysts have a 12-month price target of 109.29, which is 5% above its current trading price.

## The verdict

Although Constellation Software and Royal Bank of Canada have strong fundamentals and continue to grow at a robust pace, their current valuation is not attractive for investors. Further, technology and banking stocks are risky during a downturn or in a recessionary environment.

It's quite possible for these stocks to trade lower sooner rather than later. It's time for investors to book profits and re-enter at lower prices.

### CATEGORY

1. Bank Stocks
2. Investing
3. Tech Stocks

### TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:RY (Royal Bank of Canada)

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**Author**

araghunath

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