



Outlook for 2020: Canada's 3 Best Tech Stocks

Description

I recently wrote an article highlighting the [top Canadian technology stocks of 2019](#). **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), **Kinaxis** ([TSX:KXS](#)), and **Constellation Software** ([TSX:CSU](#)) have each rewarded investors with returns of over 50% this year!

Can these stocks repeat their stellar performance in 2020? Let's look at how these companies delivered record returns in 2019 and how they plan to continue their trajectory into the new year.

Shopify

In 2019, Canada's e-commerce juggernaut made advancements to compete head to head with the world's biggest retailer, **Amazon**. During the first year of its [\\$1 billion, four-year plan to revamp its fulfillment network](#), Shopify acquired 6 River Systems. This move added cloud-based software and collaborative mobile robots operating in more than 20 facilities to Shopify's growing distribution services.

Shopify also reached an important milestone in 2019. The company exceeded one million merchant customers, placing it above **eBay** as the second-largest e-commerce platform in North America.

Investors liked what they saw in Shopify this year, sending shares up 119% YTD.

Heading into 2020, Shopify is counting on aggressive investments in artificial intelligence (AI) to boost its services. Through AI, the company uses recommendation algorithms to help customers make intelligent decisions for their businesses. Shopify uses machine learning to identify any threat of order fraud, which helps merchants reduce costs. The company also gives its clients an alternative to Amazon's restrictive policies, since Shopify lets its merchants operate their own unique websites.

Still, many investors are wary of Shopify's high valuation. Even with the pullback from its all-time high in August, the stock, as of this writing, is trading at over 30 times sales and over 15 times book value. While this is an extraordinarily high valuation, there are some notable companies whose stock kept climbing through years of negative profits. One stock in particular comes to mind: Amazon.

Kinaxis

Stock in Kinaxis, which creates supply chain management software, is up 53% in 2019. Over the past four years, the company's revenue has grown by over 65%.

Kinaxis is also betting big on AI heading into the new year, planning to spend as much as 20% of the company's total revenue on research and development (R&D). Through its heavy R&D expenditures, Kinaxis has already received praise for its proprietary Self-Healing Supply Chain™ solution that helps its customers predict and solve potential problems before they impact business operations.

Once embedded in a client's system, Kinaxis's services are expensive to switch over to another provider, creating a low churn rate. These long-term commitments provide Kinaxis with a stable revenue base for the future.

One caveat for investing in Kinaxis is that almost 50% of the company's revenue comes from its 10 largest clients. While it is expensive for clients to abandon Kinaxis's services, the loss of just one major client could negatively affect the company's revenue growth.

Constellation Software

The stock price of Constellation Software has skyrocketed this year, giving investors a 51% gain. The company creates made-to-order software for over 20 industries, including communications, finance, and manufacturing.

In 2019, the company made several high-profile acquisitions, including MDS Global and Salvia Développement SAS. MDS Global, a data analytics software provider serving the telecommunications industry, makes Constellation's 12th media and communications acquisition. This deal was lucrative for Constellation, as MDS adds its premier clients of British Telecom, ACN Europe, Post Office UK, and ID Mobile to Constellation's customer base.

Constellation's winning strategy of acquiring successful companies should continue well into next year. The company has a track record of identifying and targeting companies with tremendous growth potential in diverse industries.

Constellation also has several competitive advantages. The company's software offerings typically get revenue from subscription services. Like Kinaxis, these services carry high switch-over costs which creates a low churn rate, allowing the company to generate a steady stream of revenue regardless of economic conditions.

The bottom line

2019 has been an awesome year for investors in Canada's up-and-coming technology sector. Shopify, Constellation, and Kinaxis proved to be the best of the bunch this year and are betting big on AI and acquisitions to keep them ahead of the pack heading into next year. If these companies can successfully execute their strategies, there is no reason that they can't once again be on top in 2020.

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TICKERS GLOBAL

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2. TSX:CSU (Constellation Software Inc.)
3. TSX:KXS (Kinaxis Inc.)
4. TSX:SHOP (Shopify Inc.)

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