Canadian Investors: 2 Top Tech Stocks for 2020

Description

Technology stocks hold a special place in my portfolio. With their capital-light business models, recurring income streams, and wide profit margins, innovative tech companies can be a critical growth driver in any portfolio.

The only problem is that the best tech stocks are usually overvalued. Investors tend to get too excited about innovative products or double-digit growth rates and end up overbuying these stocks, inevitably pushing them to unbelievably high valuations. The only way value-oriented investors like me can enter these excellent stocks is by waiting for the right opportunity.

With that in mind, here are two stocks that could hit an inflection point next year and deserve a spot on your tech watch list right away.

Kinaxis

Kinaxis (TSX:KXS) stock has had a phenomenal year. The stock is up 66% over the past year and a whopping 465% over the past five years.

It's not the only software company that has had a great run. **Descartes, Constellation Software**, and, of course, **Shopify** have all had similar runs over the same period. What sets Kinaxis apart is how underrated it is and how stable its market is.

The market for supply chain management software could be worth as much $8 billion by 2022. Meanwhile, Kinaxis faces little competition in this niche and has already managed to accumulate a respectable portfolio of enterprise clients. Long-term contracts and lucrative profit margins make this business model particularly robust.

While the stock might seem overvalued when you consider trailing metrics (a price-to-earnings ratio of 151, for example), next year is likely to be a pivotal year for the company. Global trade and logistics could be reinvigorated if the U.S.-China trade war ends. That could have a direct impact on Kinaxis's bottom line. At a double-digit growth rate, Kinaxis could be considered reasonably priced at the moment.

Open Text

While a resolution to the trade war could be a catalyst for Kinaxis, its software peer **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is likely to be spurred on by a new partnership and a recent acquisition.

This year, the Open Text team announced a critical partnership with tech giant Google will be expanded further. Google's cloud and Open Text's enterprise software will be further integrated next year, enhancing the platform's appeal for users across the board. Better features should lead to higher retention.

Meanwhile, the company also announced it would acquire Boston, Massachusetts-based cyber security specialist **Carbonite** in a US$1.42 billion (CAD$1.87 billion) deal. Once completed, the acquisition will give Open Text access to the immensely lucrative cybersecurity market that is expected to be worth US$248 billion by 2023.

These two strategic catalysts could boost the stock, which is currently trading at an enterprise value/EBITDA (earnings before interest, tax, depreciation, and amortization) of 19. In other words, Open Text could offer tremendous upside if its valuation were better aligned with other cutting-edge tech firms.

Bottom line

Kinaxis and Open Text are both well positioned for further growth next year. Strategic partnerships, new acquisitions, and a potential resolution to the trade war could be immensely beneficial for these two companies and their shareholders.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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2. TSX:KXS (Kinaxis Inc.)
3. TSX:OTEX (Open Text Corporation)

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