



## After a Rare Pullback, This Forever Stock Is a Screaming Buy

### Description

The **Constellation Software** ([TSX:CSU](#)) 10-year stock chart is a thing of beauty. It's pretty much a straight line up and to the right, with just a couple of blemishes thrown in.

Naturally, this translates into massive returns. A \$10,000 investment made in the stock back in December, 2009, back when shares traded at the \$40 range, is now worth \$413,119 assuming you reinvested your dividends into more Constellation shares along the way.

No, that's not a typo. The stock really has returned 4,029.96% over the last decade, or 45.08% per year — the best performance of any stock on the entire **Toronto Stock Exchange**.

If you look a little closer at that 10-year chart, you'll see the stock stumbling ever so slightly in both late 2015 to early 2016, when it fell a little more than 20%, and in the second half of 2018, when it declined by more than 25%. Obviously hindsight is 20/20, but both these situations turned out to be fantastic buying opportunities.

For just the third time in a decade, Constellation shares are on sale today. Let's take a closer look at why you need to take advantage of this sale and add the stock to your portfolio.

### The opportunity

After rising pretty steadily after hitting a new low back in December, 2018, Constellation shares recently peaked at approximately \$1,440 each.

It's easy to see why investors were bullish. Mark Leonard, Constellation's CEO and the man some call the [Warren Buffett](#) of software, continued to lead his team to great results.

Quarterly revenue rose by 15% on a year-over-year basis, on the back of numerous acquisitions. Cash flows from operations went up a similar amount, increasing 14%.

Leonard's strategy is simple. He and his team scour every corner of the software market looking for

niche players without much growth potential, the kinds of companies nobody else wants. He's a disciplined buyer who's always looking for at least a 30% return on capital invested.

Constellation has been deploying this strategy for more than 10 years now, and the company is still relatively small. Analysts predict it'll do just US\$3.5 billion in revenue in 2019, with that number increasing to US\$4.1 billion in 2020. There's still plenty of potential to grow the company.

Despite all this potential, the advantages of having a masterful capital allocator like Leonard running the show, and a still-rosy outlook, Constellation shares have cratered over the past few weeks. As I type this, the stock is all the way down to \$1,266, a decline of approximately 12%.

## But is it overvalued?

I won't sugarcoat it. Even after this pullback, Constellation is not a cheap stock. It's still extremely expensive.

According to the TMX Money website, Constellation shares trade at a trailing P/E ratio of 47 times, which is high even for a growth stock.

Bulls will argue there are three big reasons the company deserves the valuation. The first is Mark Leonard, who has proven many times he's a great acquirer.

Second, Constellation is a great business with high net margins and obvious barriers to entry. Finally, the stock has potential to grow the bottom line by 20% per year for years to come.

That kind of combination doesn't come by very often. No wonder the stock is so expensive.

Bears have a different opinion. They say the stock is just too expensive, and you can find companies with a [more suitable valuation that offer similar growth](#).

Some bears also argue that Leonard's reputation will eventually get the best of him, and owners will simply choose to sell to someone else.

## The bottom line

If you're a believer in Mark Leonard and the story being built by Constellation right now, then today is a terrific buying opportunity. There aren't many chances to buy this stock at a discount, so take advantage of it.

### CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

### TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

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