



The 3 Top Tech Stocks to Buy for 2020

Description

After a dismal end to 2018, the S&P/TSX Composite Index rebounded in a big way in 2019. As of writing, the Index was sitting on gains of 18.5%. Not to be outdone, the technology sector was again leading the way with returns of 59% — tripling the returns of the broader index.

Over the past five years, the S&P/TSX Capped Information Technology Index has returned an average of 20.36% annually, crushing the TSX (3.5%) over the same period.

This outperformance is a trend that is likely to continue, as the sector is home to some of the best growth stocks on the TSX. It is for this reason that investors should once again ensure they have exposure to the sector.

Top-performing tech stock

There has been no better-performing technology stock than **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). Since its IPO back in May of 2015, Shopify has returned 1,341%! An initial \$10,000 investment in the company at the IPO would be worth \$134,100 today. That's quite the return over a short period.

In 2019, the company doubled once again with returns of approximately 160%. Is the current run sustainable? The good news is that the company continues to defy expectations. Since it went public, it has only missed on earnings once.

Given this reliable performance, Shopify is likely to meet or exceed five-year annual earnings estimates of 57% and 40% annual revenue growth. Does this equate to another double? Perhaps not, but its growth rates place it among the best in the business. Bears claimed Shopify was overvalued at \$100, \$200, \$300, and \$400 per share, yet the upwards trend remains intact.

Unless the company starts to miss estimates, there is no reason to believe it can't sustain a share price in the mid- to high hundreds.

Best-valued tech stock

Admittedly, it was tough to select a value stock in the tech sector. Considering the significant returns, most technology companies fared quite well in 2019 — all except for **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)). As of writing, this former Canadian darling was down approximately 25% in 2019.

Is the downturn overdone? The company's stock price has been consolidating around the \$7 mark for the better part of the past three months. As a result, it now offers some of the [best value in the sector](#).

It is trading at only 1.16 times book value, 3.05 times sales, and has a P/E-to-growth (PEG) ratio of 1.24. All three are considerably below industry averages, and the company's own historical five-year averages.

Next year, BlackBerry's earnings are expected to rebound from a dismal year. In fiscal 2021, the company is expected to post earnings of \$0.09 per share, up from a net loss of \$0.07 in fiscal 2020. Revenue are also on the rise, expected to jump by almost 10%.

Best technology stock for income

There are only four tech-listed Canadian Dividend Aristocrats. Aristocrats are companies that have raised dividends for at least five consecutive years. As such, finding a sector leader that will provide steady and reliable income isn't easy.

My top technology stock for income is **Open Text** ([TSX:OTEX](#))([NASDAQ:OTEX](#)). Open Text has found a rare balance between growth and returning cash to shareholders via the dividend. It has a seven-year growth streak and has raised dividends by 15% on average over the past few years. It last raised dividends by 15.02% this past March.

[Last year](#), Open Text was my pick as the best-valued technology stock. At the time, it was yielding around 1.80%. Thanks to a strong 2019, the company now yields approximately 1.60%, and although it may not seem like much, it is above the company's historical average.

Open Text has a reasonable payout ratio and recently made the second-largest acquisition in its history. Upon closing, the acquisition is expected to be highly accretive to EBITDA and cash flows, and should enable strong dividend growth for years to come.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)
2. NYSE:BB (BlackBerry)
3. NYSE:SHOP (Shopify Inc.)

4. TSX:BB (BlackBerry)
5. TSX:OTEX (Open Text Corporation)
6. TSX:SHOP (Shopify Inc.)

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Date

2025/09/17

Date Created

2019/12/21

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