



If This Tech Stock Crashes, Buy it!

Description

Constellation Software ([TSX:CSU](#)) is one of the best-performing stocks in Canadian history. Since 2006, shares have exploded higher by more than 6,000%. The **S&P/TSX Composite Index**, meanwhile, gained just 45%.

At any time over the last 14 years, this stock would have been a [major buy](#). But that hasn't stopped it from going on sale every now and then. These corrections are *incredibly* rare. In 2016, shares fell 20%, only to recover in a matter of weeks. The stock dipped by 20% again in late 2018, only to surge more than 50% throughout 2019.

This stock is simply special. Don't miss your opportunity if it presents itself in 2020.

This is what's so special

Constellation is a boring company. Just take a look at how it describes itself.

"Constellation Software is a leading provider of software and services to a select group of public and private sector markets," its website states. "We acquire, manage and build industry specific software businesses which provide specialized, mission-critical software solutions that address the particular needs of our customers."

Boring, right? Not exactly. By digging into those sentences, we can get a glimpse of what makes this stock so special.

As it describes, Constellation is a software company. Notice it doesn't stress that it *develops* software but instead *acquires* it. This is core to its strategy.

Founded by a former venture capitalist, Constellation is essentially a vehicle that buys out niche software companies. You've likely never heard of *any* of these companies. They're often incredibly small, serving narrow purposes. Constellation is usually one of the only interested buyers, providing them with attractive deal prices. It then plugs the acquired software into its larger portfolio, lowering

maintenance and customer-acquisition costs.

Apart from specialization, Constellation also provides *mission-critical* solutions. Again, this is core to its strategy. Specialization means that there often aren't any competing products to turn to, but the fact that this software is also mission-critical means customers can't switch, even if they wanted to. Trying to cut costs by eliminating a critical part of your business isn't a great long-term solution.

In combination, these factors provide Constellation with a stable and expanding high-margin, recurring sales base. It's simply rinse and repeat year after year.

When to buy

By now, the market has caught onto Constellation's valuable business model. Management recently suspended quarterly conference calls so that they don't tip off competitors to potential deals. But even great stocks show volatility.

Constellation stock currently trades at 6.4 times sales, close to its five-year high of 6.8 times sales. In 2019, when shares last went on sale, it briefly traded close to four times sales. During the 2016 pullback, shares also bottomed around four times sales.

Don't be surprised to see this stock *never* go on sale again, but like any investment, anything's impossible. If shares move under five times sales in 2020, strongly consider picking up shares.

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