



Should You Buy Constellation Software (TSX:CSU) Stock Now?

Description

The tech giant **Constellation Software** ([TSX:CSU](#)) stock was among the top gainers in the last decade, gaining more than 4,000%. However, the recent weakness has brought the stock down by more than 20%. So, even if you missed its last rally, this could be your chance. Let's see if Constellation Software stock still has some steam left for the future.

The 20% is indeed a sizable correction. But notably, it has only brought the stock down to its nine-month-low levels. While many stocks are sitting at their multi-year lows, Constellation stock has stayed relatively strong.

Constellation Software: Inorganic growth a key

Constellation buys vertical market software companies. Vertical market software refers to customized applications or programs designed for a particular client. CSU looks for companies with minimum revenues of \$5 million with number one or two in terms of market share in that particular domain.

The \$28 billion software giant has managed to exhibit enormous growth led by acquisitions in the last few years. The company has managed above-average growth on both revenues as well as on the earnings front. Notably, analysts expect its superior earnings growth to continue in 2020 and 2021.

Constellation Software operates through two segments: the public and private sector. The public sector segment develops and distributes software services to government and government-related customers, while the private segment includes commercial customers.

Notably, the public sector generates almost two-thirds of its total revenues. Its strong presence in the public sector is a competitive advantage, as it is difficult to penetrate that markets for new entrants. Also, it gives Constellation pricing power and scale.

Last month, Constellation Software acquired Toronto-based BiblioCommons, a company that provides software services for public libraries.

The company has completed a number of acquisitions since its founding in 1995. As it enjoys inorganic growth, successful and efficient integration will be the key challenge going forward. Importantly, that has not been an issue for Constellation in all these years.

For income-seeking investors, Constellation Software stock pays dividends as well. Though it offers a low yield, it indicates management's earnings visibility and financial stability in an otherwise less-stable industry.

CSU stock looks attractively valued

[Constellation Software stock](#) is currently trading beyond 33 times its estimated earnings for 2020. One would think of it as a tad stretched. However, in my view, this multiple is totally warranted, and long-term investors can pounce on this opportunity.

Growth stocks generally have higher valuation multiples than the broader markets. Additionally, its five-year historical price-to-earnings multiple is way beyond its current valuation multiple.

In comparison, Canada's top growth stock and Constellation's large-sized peer **Shopify** has fallen more than 25% since last month. It continues to trade at the sky-high valuation.

Shopify stock has approximately doubled, while Constellation Software stock soared just 12% in the last 12 months.

Constellation Software has been a [great growth stock](#). It has consistently rewarded investors almost throughout the last decade. So, for those whining over how CSU stock has been flying high and missed the rally, its recent weakness could be a great entry point.

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