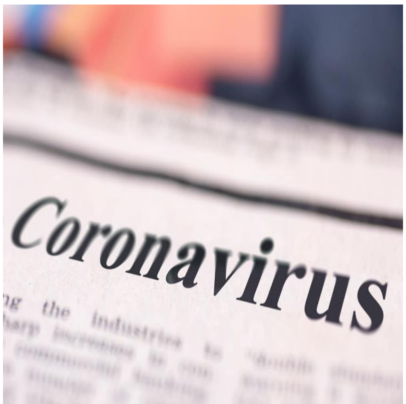

Coronavirus Market Crash Reveals the Bargain of a Lifetime!

Description

Excellent companies rarely trade for less than they're worth. However, in times of crisis and during a market crash, every stock gets marked down regardless of fundamentals, creating an opportunity for savvy investors with cash on hand.

One such opportunity seems to be emerging in **Constellation Software** (TSX:CSU) stock. The enterprise software investment giant has seen its value plunge by roughly 23% over the past month (although it has since recovered half of its losses). Here are two reasons why this correction in Constellation's price is unjustified.

Robust income

Enterprise software services are unbelievably sticky. Companies tend to sign long-term contracts for critical software tools they need to run their operations. Switching to another vendor is neither easy nor inexpensive.

Constellation has accumulated hundreds of small- and medium-sized software providers over the past 20 years. Now, the company has a stream of recurring revenue from across the world. In 2019, Constellation generated $3.5 billion in revenue, much of which was recurring.

However, two-thirds of their revenue is derived from public sector clients, rather than corporate clients, which makes the revenue stream even more robust despite the market crash.

As corporations struggle with the COVID-19 shutdown and consequent credit crisis, governments and public institutions across the developed world will undoubtedly pay their software bills.

Another reason Constellation is well placed during this ongoing crisis is the fact that software development and deployment are capital-light intangible businesses. Constellation's costs don't rise or its sales won't fall despite the ongoing shutdown for much of the economy.

Market crash valuation

Constellation Software has lost more than a fifth of its market value over the past month during the market crash, which means that its shares are now more attractively valued.

The firm reported $40.4 in free cash flow (FCF) to equity per share last year, which could either decline slightly or stay stable in 2020. If cash flow remains stable, the stock is currently trading at 30 times FCF per share. That seems like fair value for a company that has registered over 30% annual growth in recent years.

Constellation also has the dry powder to complete more acquisitions this year. It reported $326 million in cash and cash equivalents in recent filings. Well-timed acquisitions in 2020 could boost the company's FCF further.

The Constellation team could announce a major acquisition within the next few months, as valuations for technology companies collapse across the world, spurring further growth and bolstering free cash flow for decades.

However, I find the shares are currently fairly priced. I'd wait for a deeper pullback and discount during this market crash to pour more money into this stock.

Foolish takeaway

Investors sell stocks indiscriminately when the market crashes. During times of panic, alert investors can snap up some attractive deals. One such attractive opportunity seems to be emerging in Constellation Software.

Constellation is a robust software conglomerate that's been unfairly punished during this market crash. While the company's stock is worth 20% less, the business is likely to thrive despite the downturn.

Investors with a long-term time horizon and spare cash should add this to their deep value watch list for 2020.

CATEGORY

1. Coronavirus
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Date
2025/09/28
Date Created
2020/03/25
Author
vraisinghani