Forget Zoom (NASDAQ:ZM): Buy This Cheap Canadian Tech Stock Instead!

Description

Zoom Video Communications, Inc. (NASDAQ:ZM) has been off to a roaring start to 2020. While many tech and other stocks have been struggling on the markets this year, Zoom's been one of the better-performing ones out there, up around 80% year to date.

A big reason is that people are working remotely because of the coronavirus pandemic. And companies looking to continue face-to-face meetings are turning to Zoom's easy-to-use software to help conduct business.

Why Zoom may run out of steam

Zoom is still a good buy today, even though it's run into some big questions surrounding its data privacy and the security of the company's video platform. But that's not why investors should consider other stocks. The one glaring reason why Zoom may not be the best buy out there today is that its valuation is through the roof.

At a forward price-to-earnings (P/E) multiple of more than 250, a price-to-book ratio of close to 40, and a price-to-sales multiple of over 45, investors are paying a massive premium to own shares of the tech stock.

Better value buys are out there

Valuations don't always get in the way of high-flying tech stocks. Investors only need to **Shopify Inc** as proof of that, where profitability is still a bit of a pipe dream. However, when the markets are crashing, there are plenty of bargains to be had.

While Zoom may still earn some good returns for investors this year, an even better buy may be **BlackBerry Ltd** (TSX:BB)(NYSE:BB). Over the past year, BlackBerry has seen its valuation get cut by close to 60%.

Its forward P/E of 70 seems high only when you compare it to Zoom and other highly priced stocks. The stock's trading at only two times its sales and can often be found below its book value.

BlackBerry has its challenges — mostly around the company's growth. In its most recent quarter, BlackBerry's sales grew by just 10.6% from the prior-year quarter.

By comparison, Zoom grew by 77% in its last quarter. It's a lot easier to get excited about Zoom's performance than BlackBerry's, but the lack of hype surrounding BlackBerry is why the company has a lot more potential upside.

The company continues winning over customers with its cybersecurity products and services, and it'll be a much more formidable investment in a year or two. The more these privacy issues keep coming up for companies, the more I can't help but ignore what an enticing acquisition target BlackBerry may be for a company like Zoom.

Bottom line

BlackBerry has a lot of value today, and while it may not be an exciting stock to buy, that's precisely why it's an attractive one — investors have likely grossly undervalued the stock. Part of the problem may be that the brand is associated with a failed cellphone company.

Although BlackBerry is a completely different company with a different business model today, it may still be an image that's hard for investors to shake.

But the lower that BlackBerry stays at its current price or drops even lower, the better bargain it becomes. Cybersecurity issues are only going to rise in importance, which makes BlackBerry an excellent long-term hold.

The company's working on the right areas, and investors who are willing to take a chance on the company are likely to be rewarded for doing so.

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