This Canadian Tech Stock Could Make You a Fortune in 10 Years

Description

Canadian tech stocks have outperformed the TSX by a long shot in 2020. **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX) stock is no exception. Year to date it has returned 10%, but if you bought near the March 23 lows, you would be up almost 50%.

Descartes owns the world's largest logistics network platform. It provides comprehensive cloud-based services for managing freight, e-commerce, customs, global trade, and transportation. Basically, Descartes has a solution for almost anything surrounding logistics and transport.

Descartes posted solid results

Descartes posted strong first quarter results on Wednesday. Year over year, revenues, adjusted EBITDA, and earnings per share increased 7%, 15%, and 44%, respectively. These metrics were essentially flat when compared with Descartes' prior quarter.

However, it was encouraging to see that service revenue continued to grow; it now makes up 89% of revenue. Also, adjusted EBITDA margins improved to 39%, the highest it's been in five quarters.

Some short-term headwinds

The COVID-19 crisis is undoubtedly affecting its business. Some customers (such as e-commerce and grocery) saw a major increase in their logistics volumes; whereas, others, such as airlines, saw drastic plunges in freight volumes (airlines).

While Descartes proved resilient in the quarter, it did note that reoccurring sales could be affected by as much as 5% for the next few quarters. In response, management announce a restructuring plan that could temporarily cost around $2 million, but will save around $6 million per year.

Despite this, Descartes continues to be one of my top Canadian tech stock. Here are a few reasons why.

This Canadian tech stock has a resilient business platform

First, it is a very diversified tech company. Its service offerings are diversified through sector, customer, type of service, and geography. It is exposed to over seven different sectors, with customers varying from **FedEx**, **Home Depot**, and **Coca Cola.** As a result, the business is relatively balanced and stable, which is especially important during uncertain economic times.

Descartes has multiple growth arms

Second, it is a Canadian tech stock that has multiple market-driving opportunities. E-commerce is obviously an ever- increasing trend. E-commerce businesses require complex supply-chain management. Software is imperative for fulfillment and delivery optimization.

This could be a major growth avenue for the company going forward. Interestingly, Descartes just acquired Peoplevox, a niche specialist in this field.

In addition, the globalized trade environment is becoming increasingly complex (tariffs, duties, regulations, and general red-tape). Descartes provides a suite of services that help suppliers and distributors manage this complexity. Descartes' Logistics Technology Platform enables companies to better manage the complexities of global trade. Simply put, companies need this software to survive going forward.

This Canadian tech stock has a history of consistent growth

Third, this Canadian tech stock has demonstrated a strong, consistent capacity to grow. It targets annual adjusted EBITDA growth of 10% to 15%. It seeks to achieve this through organic initiatives and a disciplined acquisition strategy. Since 2018, it has exceeded its target by achieving a 23% adjusted EBITDA CAGR.

While 2020 may be somewhat challenging, Descartes has a net cash position of $46 million and over $340 million of additional liquidity. COVID-19 should have very little impact on Descartes' capacity to put together acquisition deals. Economic downturns have traditionally created very good acquisition opportunities for Descartes.

The Foolish takeaway

In conclusion, Descartes is one of Canada's best tech stocks. It has a really solid business, backed by long-term tailwinds. Descartes is not a cheap stock. It trades at a forward price-to-earnings and price to EBITDA of 62 and 30, respectively. This is cheaper than such peers as **Kinaxis**, which trades at 156 and 55, respectively. I would take any pull-back as a good opportunity to buy.

If you put $10,000 into the stock and applied the low end of Descartes targeted annual growth rate (10%), you could potentially grow your investment to $26,000 in 10 years. While this is a very elementary projection, Descartes has, more often than not, demonstrated stronger growth rates.

Buy this Canadian tech stock at the right price, and I don't see why the stock couldn't significantly grow your fortune for many years to come.

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