A Top Canadian Tech Stock to Survive the COVID-19 Pandemic

Description

Holding onto stocks while avoiding selling into a panicking market was one of the best decisions investors made at the onset of the COVID-19 pandemic. However, buying into top pandemic-resilient, Canadian tech growth stocks like **Tecsys** (TSX:TCS) during the crisis remains one of the best moves for wealth creation today.

Tecsys: A top Canadian tech stock

Tecsys is a supply chain management software provider. It supplies warehouse management, distribution and transport management, supply management at the point of use, retail order management as well as financial management and analytics solutions to a growing client list.

The company is a market leader in the North American healthcare sector, a market that lags others in supply chain automation. I have been bullish on the stock. However, I liked it even more when its strong double-digit revenue growth spree continued unabated during the coronavirus pandemic.

As the world economy shut down in March due to a ravaging coronavirus, TCS's staff worked from home like everyone else. However, sales functions and productivity weren't adversely affected. The company signed eight new accounts with a total contract value of $25.4 million during a tough quarter, up from $6.7 million during the same period in 2019. Its Itopia® platform is gaining traction globally, thanks to recent accretive acquisitions and a strong value proposition.

In a note concerning the COVID-19 pandemic, the company said it is well equipped to uphold its platform services and customer support functions. "Based upon current activity and considering the company's significant project backlog, TECSYS believes the outbreak is not having any material adverse impact on its operating results."

Impressively, the company "continued to progress sales cycles, sign new orders, and execute project implementations during the pandemic."

This is the kind of business to own during times of increased economic uncertainty. Only a few other top Canadian tech stocks can boast of such earnings resilience.

Although some projects could get postponed or delayed during the pandemic, “other client projects are starting up.”

Impressive earnings numbers

Management released TCS’s latest fiscal 2020 results on July 8 last week. Investors noted impressive growth numbers during the most recent quarter (fiscal Q4 2020 ending April 30). Fourth-quarter revenue increased by 20% year over year to a record $27.7 million, while annual revenue jumped 37% to nearly $105 million.

Although the quarterly gross margin slightly shrank to 46% due to a higher composition of lower-margin product sales, the company significantly contained its operating expenses. Operating expenses comprised just 44% of quarterly revenue, down from 51% in 2019. The operating margin expanded to 2%, up from a 4% loss last year. This allowed the company to report a positive $0.03 diluted quarterly earnings per share, up 200% from last year.

Fiscal 2020 operating margins expanded to 4.5% from a 2.4% loss in 2019. Adjusted EBITDA increased by 270% during the year (or 223% after removing the impact of new account standard IFRS 16).

An ever-improving earnings visibility

The migration to a software-as-a-service revenue model is gaining momentum. The company’s annual recurring revenue jumped 13% sequentially to top a great quarter while improving future revenue visibility.

Tecsys’s revenue backlog has increased by 57% year over year to $120 million. The company could go for a full year with stable quarterly revenues while working on the backlog alone. Such revenue resilience deserves a steep valuation premium during times of extreme uncertainty — more so as a potential second wave of COVID-19 threatens to scuttle economy reopening efforts.

Should you buy TCS stock today?

TCS share price has risen by 57% since the last time I recommended the stock in late April. The fast-growing top Canadian tech stock is gaining many quality points during a crisis. Long-term investors who buy and hold shares could accumulate more wealth as the business grows.

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Date
2025/08/18
Date Created
2020/07/13
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