

2 TSX Tech Stocks That Could Stand Tall in This Pandemic

Description

After rebounding strongly in the second quarter, the S&P/TSX Composite Index has continued its upward momentum in the third quarter as well. Quarter to date, the index was trading 3.9% higher. Investors' optimism over the progress in the development of the vaccine has been driving the index.

Despite the progress, I believe the development and distribution of the vaccine could take some time. So, I would like to put my money in the companies that could benefit from this pandemic given the uncertainty.

The pandemic has fastened the process of digitization across the world. This digital shift could benefit companies, such as **Absolute Software** (TSX:ABT) and **Descartes Systems** ([TSX:DSG](#))([NASDAQ:DSGX](#)).

Absolute Software

Absolute Software provides management and security solutions to enterprises, governments, and educational institutions through a SaaS (software-as-a-solution) business model. It also offers solutions through its partners' ecosystems.

This year, Absolute Software has returned over 70%, easily outperforming the S&P/TSX Composite Index, which has declined by 5.5% during the same period. However, I believe the rally has more legs to go, given its strong growth potential.

As of March 31, Absolute Software owns 138 patents, while 27 new patent applications are in the process. It has over 12,000 customers across the world. The company aims to develop a long-term relationship with its customers. This approach has led the company to earn approximately 95% of its revenue from its recurring SaaS business.

Absolute Software has consistently grown its ACB (annual contract base), which represents an annualized value of its recurring revenue, over the last few quarters. [In the recently announced quarter](#), it reported a 7% growth in its ACB due to strong performance from its enterprise and government vertical.

As the threat from the pandemic still looms large, people and businesses continue to operate from their homes. Also, many businesses are warming up to the concept of remote working due to the advantages it provides. However, remote working could increase the chances of data breaches and cyberattacks. Thus, this shift could aid Absolute Software in improving retention and expansion of its service subscriptions.

Despite the strong growth potential, Absolute Software is still trading at attractive valuation multiples. The company trades at a forward EV-to-EBITDA multiple of 17.4, while the industry average stands at

20.7. Its forward price-to-cash flow stands at 21.8 lower than the industry average of 25.6.

Besides its attractive valuation multiples, Absolute Software also pays dividends at a healthier rate. On April 20, the company's board had declared quarterly dividends of \$0.08 per share. So, as of July 17, the company's dividend yield stood at 2.1%.

Descartes Systems

Descartes Systems provides logistics and supply chain management solutions. It provides the services either through a subscription basis or as a transactional basis. Customers can also buy perpetual licences. Despite the weakness in the broader equity markets, the company has returned over 27% this year.

However, I believe there is more upside to Descartes Systems, [given its strong growth potential](#). It focuses on both acquisitions and organic growth to drive its sales. In its recently completed quarter, Descartes Systems reported a revenue growth of 7.3%, primarily driven by its acquisitions in the last four quarters. Later, in June, Descartes Systems acquired Kontainers, which provides digital freight execution services to logistics providers.

Meanwhile, the growth in the e-commerce business amid the pandemic has increased the complexities for logistics providers, including quicker fulfillment time, competitive pricing, and flexibility. Also, customers want a real-time update on their consignments. So, these changing needs of customers could further drive the demand for Descartes Systems's services.

Bottom line

Although the pandemic has disrupted many businesses worldwide, it has also created opportunities for some. I believe Absolute Software and Descartes Systems are well positioned to capture such opportunities. Investors with a long-term horizon should accumulate these stocks for higher returns.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:ABST (Absolute Software)
3. TSX:DSG (The Descartes Systems Group Inc)

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