



2 TSX Tech Stocks to Buy and Hold Forever

Description

This year has been highly volatile for the financial markets across the world. In March, the S&P/TSX Composite Index had declined by over 60% from its peak amid the outbreak of COVID-19. However, the index has recouped a significant chunk of its losses. Currently, it trades just over 6% lower for this year.

Meanwhile, COVID-19 cases are rising again, and the vaccine against the pandemic is still in the trial stage. Also, a high unemployment rate is a cause for concern. So, I expect the second half of this year to be equally volatile, and investors should look for quality stocks to ride out this volatility.

Amid the pandemic, businesses across the world are focusing on digitizing their processes. With this shift towards digitalization, I believe **CGI Group** ([TSX:GIB.A](#))([NYSE:GIB](#)) and **Constellation Software** ([TSX:CSU](#)), with proven track records, present excellent buying opportunities.

CGI Group

CGI Group is an information technology company that provides an end-to-end business solution and aids its clients in optimizing their operations. The company's stock has returned over 145% in the last five years at a CAGR of 19.7%, easily outperforming the S&P/TSX Composite Index.

CGI Group's strong fundamental growth supported the rally. During the same period, the company had maintained its EBITDA margin consistently over 14%, while its adjusted EPS increased at a CAGR of 10.9%. Both acquisitions and organic expansions contributed to the company's growth.

Meanwhile, CGI Group's stock has been under pressure this year. It is down 20.2% for this year. The decline in backlogs and bookings in the first six months has been a drag on the company's stock price.

[In the second quarter](#), the company's book-to-bill ratio for the trailing 12-months fell below 100%, indicating a decline in the demand, as customers delayed their contracts amid the pandemic.

However, I believe this to be a short-term setback. Due to the pandemic, businesses across the world

are accelerating their digitization process, which could raise the demand for CGI Group's services. Also, at the end of the quarter, its liquidity stood at \$1.73 billion. So, the company is well capitalized to ride out this pandemic-infused volatility and also fund its future expansion plans.

Constellation Software

Constellation Software focuses on acquiring small software businesses with strong growth potential. In the last five years, its sales grew at a CAGR of 15.9%, while its EPS rose at 26.4%. Backed by the strong fundamental growth, the company's stock has returned over 265% from 2015 to 2019 at a CAGR of 29.6%.

Despite the pandemic, Constellation Software has continued its momentum delivering over 26% of returns this year. The company's revenue grew over 16% in the first quarter, driven primarily by the acquisitions. Meanwhile, I believe there is more upside to the company's stock price, given the nature of its business.

It acquires small software companies, which [provide mission-critical products in their specific markets](#). The customers require Constellation Software's services for executing their essential functions. So, the company's renewal rate is high. Further, it faces less competition, as it operates in niche markets.

Meanwhile, the company generated \$361 million of cash from its operations during the first quarter, which exceeded its capital spending on new acquisitions and dividends by \$48 million. At the end of the quarter, the company's cash position stood at \$364 million. So, Constellation Software is well positioned to acquire new businesses to boost its growth.

Bottom line

Despite their reliable track records, both CGI Group and Constellation Software trade at attractive valuation multiples. The forward price-to-earnings multiple of CGI Group and Constellation Software stand at 16.7 and 29.6, which are below the industry average of 33.4.

So, given their impressive performance, attractive valuations, and steady growth prospects, I believe these two companies provide excellent opportunities to ride out the volatility.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:GIB (CGI Group Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:GIB.A (CGI)

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