



3 Factors That Helped Canadian Tech Stocks Skyrocket During the Pandemic

Description

While many Canadian businesses are on the verge of collapse, the country's tech sector has had one of the best years. Canadian tech stocks are up almost 90% on average in 2020, notably beating their U.S. counterparts. So, what exactly drove them amid one of the worst crises of the century?

Pandemic double-underlined the need to go digital

The virus outbreak forced people to stay at home for the most part of the first half of the year. That increased the desperation of small- and medium-scale businesses to grow their digital presence. The tech titan **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), which helps businesses set up their online store, saw a huge demand surge in the first half.

Its revenues in this period grew by a handsome 72% compared to the first half of 2019. Interestingly, a prolonged pandemic is expected to change consumer behaviour, which will likely continue to benefit companies like Shopify. Shares of this tech giant are up more than 170% this year.

A relatively smaller tech company, **Lightspeed POS** ([TSX:LSPD](#)), reported one of the best quarters on record. It [saw](#) decent customer base expansion and higher transaction volumes for the quarter ended June 30, 2020. Lightspeed provides a cloud-based software platform to small- and medium-sized businesses that help them in customer management, payments, analytics, and better operations management.

Superior financials

Higher demand led to higher revenues, which ultimately led to higher earnings. Moreover, technology companies are high-margin businesses with attractive growth potential. There is hardly any industry in Canada that generates higher margins like the tech sector. For instance, Shopify operates with a gross profit margin of around 55%, while Lightspeed has it at 65%.

Also, pandemic-driven lockdowns forced many to close their operations or operate at a minimal

capacity. **Air Canada**, the biggest airline in the country, operated with just 10-15% of its capacity in the first half of 2020. However, it was comparatively easy for tech companies to switch to home offices due to their inherent business nature. The costs of operations rather declined, eventually helping the bottom line.

Constellation Software ([TSX:CSU](#)) also recently reported one of the best quarters on the top-line front. The tech company has managed a superior growth for the last several years, mainly driven by its unique business model. The company acquires smaller peers that have a controlling position in niche markets.

Its client base comprises commercial businesses as well as government clients and related parties and, was relatively resilient during the pandemic. Constellation's software portfolio is hard to replicate and plays well in building long-term customer relationships.

Canadian tech stocks: Valuations overlooked

Market participants kept putting money in Canadian tech stocks, despite valuation concerns. Even at the beginning of 2020, TSX tech stocks were expensive. But the pandemic underpinned the rally and made those stocks even more expensive.

More importantly, if any sector has an ability to outperform in a never-seen-before crisis, that sector deserves a premium. Canadian tech stocks have proved that it's not prudent to apply old-school valuation metrics to all stocks and sectors.

For example, Shopify has been trading at a premium valuation for years and, yet, the markets can't get enough of it. The same is the case with Constellation Software stock. It has been trading with an inflated valuation for years but has created massive wealth for its shareholders. It has returned 4,135% in the last 10 years, notably outperforming broader markets.

Only time will tell if Canadian tech stock will continue to rally or not. But it is indeed an [attractive space for long-term investors](#).

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TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:LSPD (Lightspeed Commerce)
4. TSX:SHOP (Shopify Inc.)

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