



Sell Constellation Software (TSX:CSU) Stock Now: Buy This Instead

Description

Constellation Software ([TSX:CSU](#)) is an incredible stock.

Suppose you invested \$10,000 when the company went public in 2006. If you held tight, your money would now be worth \$850,000!

Few stocks are capable of this immense growth. But here's the thing: the biggest days of growth are history.

Now armed with a \$33 billion market cap, returns are starting to [slow](#). This company is still a great long-term holding, but if you want to achieve the massive growth rates of the past, you need to look smaller.

This is just the law of large numbers. A \$3 billion company can double or triple in size much more easily than a \$33 billion firm.

Want huge growth?

If we want to emulate the incredible growth rates that Constellation generated in the past, it's helpful to look at what factors made that rise possible.

As its name suggests, Constellation is in the software business. This is one of the most scalable industries in existence.

If you produce a physical product, you need to source raw materials, hire labour, manufacture the good, then ship it to the consumer. All of this costs money and time.

Software, on the other hand, doesn't have any additional deployment costs. Users download it on their phones or computers instantly. This is why software margins are so high. Nearly every additional revenue dollar generates an enormous amount of profit.

If you want to emulate Constellation's success, focus on software. But there's one other thing to pay

attention to: recurring revenue.

Constellation built a cash flow machine by getting its customers to renew their contracts year after year. The software was already built and deployed, so these recurring revenues are extremely profitable.

The best software companies figure out how to make their products [sticky](#).

Ditch Constellation for this

Don't laugh, but **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) is the next big software stock. But isn't it a hardware company? Doesn't it make poorly-designed smartphones?

Many are surprised to discover that the company didn't make a *single* phone last year. After a multi-year turnaround, BlackBerry is now a dedicated software company.

The new BlackBerry has several similarities to Constellation.

Its software focus will allow it to generate high profit margins. The most exciting similarity, however, is that BlackBerry is building a recurring revenue machine.

Consider its Cylance division, which uses artificial intelligence to thwart attacks *before* they occur. As the world gets faster and attacks become more costly, this is a critical piece of tech.

For example, Cylance is integrated into BlackBerry's QNX platform, which secures vehicles from hacking. As our cars get smarter and more connected, the ability to defend itself from hackers grows in importance. Think of how valuable this tech will be once we have self-driving cars.

Like Constellation, BlackBerry is building software that will be incredibly hard to replace once installed. But the market hasn't caught on yet. BB stock trades at three times sales. The competition trades at 10 to 40 times sales!

If you wish you invested in Constellation years ago, this is your second chance.

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