



Become a TFSA Millionaire With This Stock!

Description

Looking for substantial [growth](#) in your TFSA? We all are. I think **Constellation Software** (TSX:CSU) may be the best choice for investors considering a TSX-listed technology growth option. Here's why.

Software = growth

The software space in general is one which has proven to be one of the best places for investors to park money in recent years. Constellation Software's exposure to the software space has been extremely beneficial for investors. Constellation's business model primarily centres on consolidating a relatedly fragmented sector, This provides investors with an extremely long runway for growth.

Growth by acquisition is a winning strategy

This focus on acquiring and integrating small-cap software companies into the company's portfolio has provided Constellation investors with one of the best growth rates on the TSX. This incredible track record of growth has actually kept pace with the company's fundamentals. This indicates the rapid stock price expansion of Constellation has not outpaced its fundamentals. This means the company's metrics continue to trade in what many analysts believe to be a reasonable range for long-term investors.

The great management team is a huge plus

What has allowed Constellation to be so successful in its growth-by-acquisition strategy is a world-class management team. This team has an extremely disciplined approach to mergers and acquisitions (M&A). Mark Leonard, Constellation's CEO, is widely regarded to be one of the best capital allocators in Canada (and maybe the world).

The software sector is not an easy one to consolidate, and valuations in this space remain elevated for most companies. Mr. Leonard has done an incredible job of identifying undervalued software companies with great growth potential and reasonable valuations. The value added from Constellation is the subsequent improvement of

these companies' prospects and long-term cash flow-generation trajectories.

Opportunity is huge in this sector

Some analysts have indicated the number of small- to medium-sized enterprises (SMEs) Constellation could potentially acquire to be in the 20,000-30,000 range. This significant level of fragmentation in the software sector is likely to provide a relatively unlimited fuel source for acquisition-hungry conglomerates looking to grow. The coronavirus pandemic has also accelerated shifts to various software solutions that were already underway. Constellation's current portfolio of companies has increased in value. This is mainly because the growth potential of its acquisition targets and its portfolio companies have increased.

Risks do exist

These business models do carry inherently higher risks. We've seen this with other high-growth stories in Canada, such as the former Valeant Pharmaceuticals growth-by-acquisition collapse.

Investors need to remain comfortable with how the management team of such acquirers model these acquisitions. Accordingly, the correct utilization of internal rate of return or hurdle metrics with potential targets is important. As previously stated, Mr. Leonard and his M&A team have been exceptional in this regard thus far. I expect a similar level-headed, down-to-earth approach to prevail over the long run. This is important in the content of the massive size of the market of potential acquisition targets.

Bottom line

Constellation is profitable, unlike some of its astronomically valued Canadian technology peers. This company generates aggressively growing free cash flow each and every year. Therefore, this company is, in my view, one of the few "no-brainer" opportunities for long-term growth investors looking for a Canadian technology stock today.

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Date

2025/08/24

Date Created

2020/12/17

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