2 Canadian Growth Stocks I’d Buy Over BlackBerry (TSX:BB) in 2021

Description

BlackBerry (TSX:BB)(NYSE:BB) has had a volatile start to 2021. For a good part of the past few years, BlackBerry stock has been stagnant and even declining. Yet the company has been making in-roads on a number of interesting tech trends, such as cybersecurity, electric vehicles, and the internet of things (IoT).

Consequently, many commentators started to believe the stock was getting pretty cheap. In December 2020, BlackBerry gained some steam from announcements regarding a vehicle development partnership with **Amazon’s** AWS division.

BlackBerry stock is okay, but I think Canadians can do better

Today the stock is up more than 40% since that announcement. This was largely fueled by Reddit traders. While BlackBerry is an okay technology company, it has struggled to both consistently grow and be profitable. Ever since its handset days, the company has struggled to find its way.

Frankly, I would prefer to own a Canadian tock where management consistently exceeds revenue and growth expectations. Given that, here are two Canadian growth stocks I would likely buy over BlackBerry today.

One of the best all-time TSX performers should keep performing

The first Canadian stock I would buy over BlackBerry is **Constellation Software** (TSX:CSU). In terms of consistency, you don’t get much better than Constellation. By consistency, I mean average annual shareholder returns of 42% since 2011. Chances are, this average return will likely moderate going forward. Simply, the company is now at a scale where growth will undoubtedly slow. Yet if you even cut annual returns in half, 20% would still be pretty great.

Constellation has recently been rejigging its strategy. Rather than using its excess cash flow to pay out regular dividends and special dividends, it is contemplating re-investing those proceeds into larger vertical management software businesses. This is a new market it has normally shied away from. Given its track record, management believes it can reinvest shareholders' dollars better than they can re-invest it themselves. It believes this strategy is the most "responsible" way to earn shareholder value going forward.

The market recently got a sample of Constellation's value re-investment approach through its spin-off of another great European software consolidating business, **Topicus.com**. Overall, like BlackBerry, Constellation stock is not cheap. Yet its value is more than worthwhile when you consider its strong cash-yielding businesses and its best-in-class management team.

Instead of BlackBerry, buy this highly profitable stock

Enghouse Systems (TSX:ENGH) is another Canadian growth stock you should consider over BlackBerry. Like Constellation, Enghouse has been a consolidator of largely legacy software businesses. Management takes a very disciplined approach and acquires businesses only at the right value. It then provides management, capital, and innovation, giving these businesses a new life. Normally, they become very stable cash-cow businesses over the long term.

Last year, Enghouse produced a 30% free cash flow yield. It already has a cash-rich balance sheet with over $160 million (after its special dividend payout). The pandemic has slowed its ability to continue its acquisition pipeline and consequently the stock is a bit unloved. Yet management has indicated that it still has a very robust growth pipeline, but investors just need to be patient.

Unlike BlackBerry, this stock has a strong history of growing both the top and bottom line at almost no dilution to shareholders. Almost all its growth has been self-funded. Given Enghouse's current free cash flow yield of almost 5%, investors can afford to wait and see strong upside when this management gets buying again.

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2. TSX:BB (BlackBerry)
3. TSX:CSU (Constellation Software Inc.)
4. TSX:ENGH (Enghouse Systems Ltd.)

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