



5 Canadian Tech Stocks: 3 to Hold, 2 to Buy in March 2021

Description

Canadian tech stocks that were big winners last year have experienced selloffs lately. This is normal after some posted extraordinary gains in 2020 as their businesses benefited from higher growth during the pandemic.

For example, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock almost tripled investors' money in 2020, driven by revenue growth of 86% versus 47% a year ago. **Lightspeed** ([TSX:LSPD](#))([NYSE:LSPD](#)) stock also experienced nice gains of 149%, as the company experienced revenue growth of 66% in the last 12 months versus 47% a year ago (coincidentally the same as Shopify).

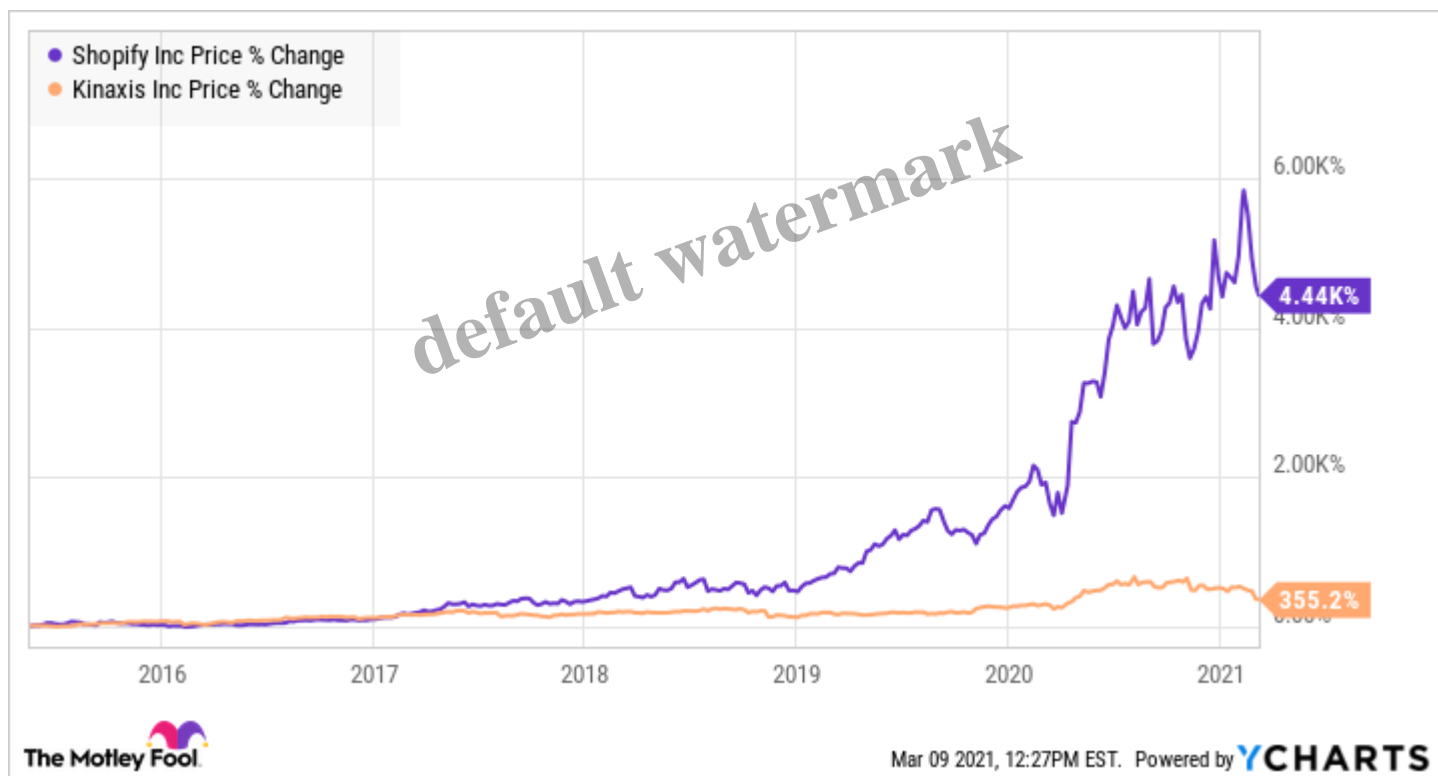


Data by YCharts.

Growth is expected to be [slower](#) for these tech stocks this year as the economy adjusts to post pandemic. So, some profit taking is expected with the anticipated slower growth and after the stocks had a big run up in 2020.

Kinaxis ([TSX:KXS](#)) is also another popular tech stock. It didn't run up as much as Shopify and Lightspeed in 2020. However, it still did quite well versus the broader market with appreciation of 80% supported by revenue growth of 17%.

Since 2014, Kinaxis's revenue growth has ranged between 13-30% with an average of 20%. In comparison, Shopify's revenue growth has ranged between 47-95% since 2015 with an average of 74%. Therefore, Shopify has a stronger track record of execution while incorporating an M&A strategy. This is also reflected in the stocks' long-term returns as shown below. (Lightspeed only has two years of public history available. So, I left it out of the comparison.)



Data by YCharts.

One thing that may be mind-boggling for investors is the high valuations on these names. Shopify stock trades at 312 times forward earnings and 40 times forward enterprise value to sales (EV/sales). Lightspeed stock trades at 29 times forward EV/sales. Kinaxis trades at 129 times forward earnings and 15 times forward EV/sales.

That said, winners tend to continue winning. According to the consensus analyst 12-month price targets, Shopify stock offers the best value with near-term upside potential of about 29%.

Canadian Tech stocks with higher certainty

If you're looking for tech stocks that will provide a smoother ride, you can consider these businesses with proven track records of execution that aren't trading at sky high valuations.

Constellation Software ([TSX:CSU](#)) is a high-quality tech company. It employs M&A as a part of its growth strategy. Since 2011, it has increased revenues by at least 10% every year while delivering high returns on capital (ROC) and returns on equity (ROE). Its more recent five-year ROC and ROE of about 30% and 50%, respectively, remains super strong.

With Constellation Software, investors would still be paying up for quality (but not paying as much for the higher growth in the previous group of tech stocks). The stock trades at about 30 times forward earnings and six times forward EV/sales.

According to the consensus analyst 12-month price target, Constellation Software stock is overvalued by about 18%.

Investors are waiting to see **Enghouse Systems's** execution post pandemic. The stock appreciated 28% in 2020 and has come off 21% from its high in mid-\$75. Historically, Enghouse has posted nice ROC and ROE. Its five-year ROC and ROE are both about 18%.

The stock trades at about 32 times forward earnings and 5.6 times forward EV/sales. According to the consensus analyst 12-month price target, Enghouse has near-term upside potential of 34%.

The Foolish takeaway

If you're looking for a high-growth tech stock, take a closer look at Shopify. For a better-valued tech stock, consider [Enghouse Systems](#), which is also a Canadian Dividend Aristocrat with above-average dividend growth.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/08/22

Date Created

2021/03/09

Author

kayng

default watermark

default watermark