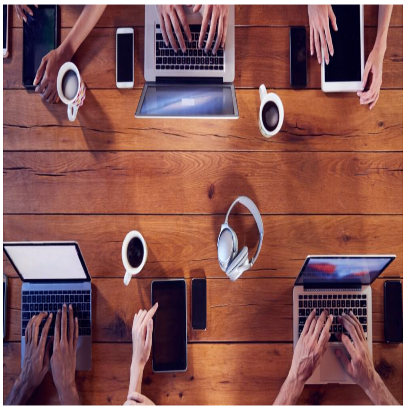

3 Software Growth Stocks That Should Be on Your Watch List

Description

Growth stocks haven't performed as expected this year. Rising interest rates and compressing valuations have dented high-flying stocks that delivered triple-digit returns last year. Value stocks, by comparison, have been doing much better in 2021.

However, long-term investors should look beyond these short-term gyrations. The current ongoing correction could create opportunities. Here are the top three software growth stocks that are starting to look attractive in the current market environment.

Growth stock #1

Topicus (TSXV:TOI) hasn't been a public company for too long, which is probably why it's been overlooked by the market. The firm is a spin-off from enterprise software giant **Constellation Software**. Just like its parent, Topicus focuses on acquiring vertical market software providers.

Unlike its parent, this acquirer focuses on acquisition targets in Europe. Europe's tech talent and software solutions tend to fly under the radar. Domestic investors are much more risk averse and far less tech savvy, which translates to lower valuations for software companies.

Effectively, Topicus has plenty of attractive opportunities on the continent. That should help it grow a steady pace and deliver extraordinary returns for early shareholders. At the moment, the stock is trading at 15.8 times free cash flow, which is far lower than many of its rivals in the industry. Add this growth stock to your watch list.

Growth stock #2

Healthtech software firm **WELL Health** (TSX:WELL) went from being an obscure venture stock to one of the best-performing tech stocks on the market over the past year. The company offers software solutions to manage medical records. However, its acquisitions over the past year have expanded its capabilities extensively.

WELL Health now has physical clinics across Canada, a virtual telehealth service, cybersecurity tools, and a vast collection of medical software tools. Many of these platforms saw tremendous traction during the pandemic. Now, WELL has enough resources to accelerate its acquisition-driven growth strategy.

However, the stock has plunged along with the rest of the tech market. WELL stock is down 20% from its all-time high just a month ago. It's now trading at four times annualized recurring revenue estimates for 2021. In short, it's an undervalued growth stock that deserves closer attention.

Growth stock #3

Kinaxis (TSX:KXS) is a surprising victim of the recent tech sell-off. Unlike other software companies, Kinaxis actually benefits from the economic reopening. It offers supply-chain software solutions for the world's largest traders and logistics corporations.

As consumption and international trade explode in 2021, Kinaxis should see a growth spurt. However, the stock has declined 34% from August last year. It's now trading at a price-to-free cash flow ratio of 80. That ratio may seem high, but consider the fact that cash flows were suppressed throughout 2020. The economic rebound should help Kinaxis win more contracts and expand its bottom line.

Keep an eye on this growth stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:KXS (Kinaxis Inc.)
2. TSX:WELL (WELL Health Technologies Corp.)
3. TSXV:TOI (Topicus.Com Inc.)

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1. Investing

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