3 Tech Stocks to Consider Before the Next Boom

Description

The tech sector recently saw an end to the strongest rallies yet in 2021. Between mid-May and the first week of July, the **S&P/TSX Capped Information Technology Index** rose by almost 24% before slipping down almost 3%. It might just be a temporary slip, and the tech rally might continue onwards.

The tech sector saw the sharpest rise after the pandemic, and too much investor interest pushed many tech stocks way beyond their natural growth path. A consequence of that was a relatively rough cool-off period. And even though most tech stocks are still undervalued and haven't really normalized yet, some might be good buys before the next tech boom.

A tech aristocrat

Enghouse Systems (TSX:ENGH) has the distinction of being the oldest aristocrat in the tech sector. It has grown its payouts for 14 consecutive years. And even though the current yield is nothing to write home about (1.1%), it's higher than it has been in the past few years, thanks to the consistent devaluation of the stock in the last 12 months. The stock has fallen over 25%, and only recently did it start to recover.

The value is quite close to fair as well, and if you consider the general valuation in the sector, it looks downright undervalued with its price-to-earnings multiple of 32. Before the pandemic hit, it was a pretty powerful growth stock, and its 10-year CAGR, which is 29.5%, despite its current drop, is an endorsement of that.

If the tech sector is about to rally, Enghouse at its current price is a great bargain.

A new tech company

Softchoice (TSX:SFTC) is a Toronto-based software company that has only started to trade on the TSX in May 2021. From its inception, the stock has only grown 36% at its peak and has grown 18% by now. It's basically a cloud technology company. It has partnered with some of the biggest names in the tech industry and offers a diverse range of solutions.

The company had a smashing IPO and is currently sitting on a market capitalization of $1.48 billion. It's considered the number one **Microsoft** cloud deployment partner, placing it in a powerful position in the cloud market. A broad range of solutions might indicate that the company is poised for steady financial growth. The stock is currently quite overpriced, and a more accurate valuation picture might appear in the next few quarters.

A software company

The Waterloo-based software company **Descartes Systems Group** (TSX:DSG)(NASDAQ:DSGX) is another overvalued tech stock, but with a powerful enough growth history to justify the price tag. The stock has grown over 230% in the past five years alone. Descartes is currently in one of the most thriving tech spheres — i.e., e-commerce and supply chain.

Its solutions include B2B connectivity, transport management, e-commerce shipping and fulfillment, and trade intelligence. The odd thing is that despite the fact that the cumulative potential of both tech stocks and e-commerce should have sent the stock through the roof after the market-crash recovery momentum started to grow, Descartes stock stuck to its usual growth pace. That's partly the reason why it's still growing at a relatively steady pace.

Foolish takeaway

The tech sector is one of the most vibrant and active sections of the TSX and one of the most influenced ones by the market across the border. Not all stocks in the tech sector are following the same pattern. Some are still reeling from the fall after they hit the recovery peak, while others, like Descartes, are already following their typical growth trajectory.

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TICKERS GLOBAL

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2. TSX:DSG (The Descartes Systems Group Inc)
3. TSX:ENGH (Enghouse Systems Ltd.)

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Author
adamothman