



## Overvalued TSX Stocks: Should You Jump In the Rally or Wait for a Pullback?

### Description

Tech and energy stocks have been mainly behind the broad market rally since last year. Though the markets have taken a breather recently amid the Delta variant fears, TSX stocks will likely resume their upward march soon.

However, one factor that could hinder the rally going forward is the valuation. Some names in the market look expensive from the valuation standpoint and suggest a weaker action, at least in the short term.

At the same time, some TSX stocks don a higher valuation multiple but still suggest a decent upward potential. So, here are some [high-growth Canadian stocks](#) that look expensive. Let's take a look at which of them offer value.

### Constellation Software

**Constellation Software (TSX:CSU)** stock is one of the long-term outperformers in the Canadian markets. However, the stock is currently trading at a price-to-earnings multiple of 125 — way expensive from the traditional valuation metrics.

But interestingly, CSU stock has almost always been trading at a premium valuation. Some [high-growth names](#) have superior earnings growth capacity and attractive markets, so the premium valuation is quite warranted. Like in the case of Constellation, its net income has grown by 15% CAGR, much higher than Canadian stocks at large, in the last decade.

Also, its unique business model offers growth that many peer tech companies do not. For those who don't know, Constellation Software acquires smaller software companies that have leadership positions in their particular area of expertise.

CSU has acquired hundreds of companies so far, and the bottom-line strength only highlights the management's proficiency in finding and nourishing the target companies. So, in a nutshell, Constellation Software stock might look expensive from the traditional measures, but it will likely

continue to create value for shareholders in the long term.

## Cargojet

**Cargojet** ([TSX:CJT](#)) stock was one of the top performers last decade. But it soon changed course and has been trading muted since November last year. The expected end of the pandemic and lesser cargo business opportunities for Cargojet weighed on the stock recently.

However, despite the recent weakness, CJT stock still trades at a hefty 96 times [earnings](#). Importantly, as we move out of the pandemic, Cargojet might see headwinds for its top-line growth. Thus, the trend the company saw last year during restrictions might reverse when the new normal is achieved post-pandemic.

Thus, CJT stock looks overvalued based on its current valuation multiple and seems a risky bet for now.

## Nuvei

There are so many things to like about this Canadian fintech company **Nuvei** ([TSX:NVEI](#)). This year, it has exhibited superior quarterly earnings growth while it has also been quite aggressive on the acquisitions front. Nuvei's extensive geographical presence and scale are also impressive. As a result, the stock has soared almost 190% since its IPO last September.

I certainly like the company but not the stock, particularly at these levels. It is currently trading at a forward price-to-sales multiple of 26. I have taken a price-to-sales measure instead of price to earnings, because the company has been profitable only for the last few quarters. Even if the company achieves its 2021 revenue guidance and picks up a healthy net margin, the stock still looks expensive.

The company will likely see significant growth considering its stellar contribution from e-commerce. In addition, its strategic acquisitions might accelerate financial growth in the next few quarters. So, Nuvei is a great long-term pick. But given the valuation, the upside from current levels looks capped at the moment.

### CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

### TICKERS GLOBAL

1. TSX:CJT (Cargojet Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:NVEI (Nuvei Corporation)

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