



Could Constellation Software Still Be a Millionaire-Maker Stock?

Description

There is no concrete definition for a millionaire-maker stock, but a company that can return 10 times its value in 20 years could be considered as one. While Canadian tech stocks have flown under the radar compared to their counterparts south of the border, there have been several companies that have derived outsized gains to long-term investors. One such stock is **Constellation Software** ([TSX:CSU](#)), which has returned a staggering 12,740% since its IPO in 2006.

Constellation Software has been a goldmine for investors in the last 15 years, but does it have enough room to keep generating enviable gains in 2021 and beyond? Let's take a look if Constellation Software has the potential to turn \$100,000 into a million dollars in the next 20 years.

Constellation Software has aggressively acquired profitable companies

Constellation Software is [valued at a market cap](#) of \$46.31 billion. It primarily acquires, builds, and manages vertical market software businesses in Canada and several other international markets. The company has two primary business segments: the Public Sector and Private Sector. Constellation Software serves government and private enterprise customers and provides a wide suite of software services to these clients.

It has focused on aggressively acquiring companies that develop mission-critical software solutions and address the specific needs of a particular industry. This ensures a robust customer-retention rate, as switching costs will be high. Its [prime targets are](#) mid- to large-sized vertical market software companies that derive over \$1 million in EBITDA. The potential acquisitions should report consistent growth in revenue and earnings (ideally over 20% annually).

CSU stock is trading at a steep valuation

Constellation Software serves more than 125,000 customers in more than 100 countries. This

acquisition-based business model has allowed the company to increase sales from \$2.47 billion in 2017 to \$3.96 billion in 2020. In the last 12 months, its sales have risen to \$4.5 billion and are forecast to touch \$5.1 billion this year and \$5.92 billion in 2022. Analysts tracking Constellation Software also expect its adjusted earnings per share to increase from \$35.06 in 2020 to \$52.32 in 2022.

Bay Street expects CSU to increase earnings at an annual rate of 24.6% in the next five years. The company's bottom line has risen by 16.77% in the last five years, during which CSU stock has returned 301.4% to investors, easily outpacing the broader indices.

Constellation Software's market-thumping gains have meant the stock is trading at an expensive valuation. Its forward price-to-sales multiple stands at nine, while its price-to-earnings ratio is also steep at almost 50.

The Foolish takeaway

There is no reason why Constellation Software will not replicate its historical returns going ahead. It acquires companies that are potential disruptors, and its vast base of customers ensures steady cash flows across business cycles. The company's growth rates remain solid and command a premium valuation.

Analysts have a 12-month average price target of \$1,800 for CSU stock, which is 15% below its current trading price. But this Canadian tech heavyweight is well poised to surpass expectations and estimates, making it a solid bet for growth investors.

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