2 Overvalued Growth Stocks That Are Worth The Price

Description

Every investor has their own benchmark for what they consider too overvalued or adequately undervalued. And even that benchmark shifts from asset to asset. For example, investors might be willing to pay three times the fair valuation for an explosive tech stock, but even twice the fair valuation of an energy stock on a temporary growth streak might be too much for them.

That makes overvaluation subjective, which varies from investor to investor and asset to asset, mediated by their risk tolerance. You have to weigh the overvaluation against the merits and return potential of the stock and determine whether the extra payment is worth it.

There are two stocks that are worth buying despite being overvalued.

A waste collection company

Waste Connections (TSX:WCN)(NYSE:WCN) has been a consistent growth stock for a while now. The company is one of the largest solid waste collectors and certain U.S. and Canadian markets, many of which are exclusive, further strengthening business/revenue sustainability. As a crucial utility provider, Waste Connections is significantly safer compared to companies whose revenues are tied to discretionary spending.

The final endorsement of the company's stability is the fact that it's a Dividend Aristocrat that has grown its payouts for 11 consecutive years. But its growth potential is significantly more compelling a reason to buy this company than the paltry 0.6% yield, even if the payouts are expected to rise year after year.

The company has returned about 160% to its investors, bringing the compound annual growth rate for the period to 21%. The growth pace is complimented nicely by the growth pattern, which is quite consistent. The stock is quite resilient as well, given how swiftly it recovered from its pandemic crash. And judging by the price-to-earnings of 60 and a price-to-book of five times, it is quite undervalued.

Still, thanks to the nature of its business and the stability the company offer in terms of both dividends and capital growth, the price might be worth it.

A software company

If consistent growth is the pattern you want to continue about the overvalued growth stocks you add to your portfolio, **Constellation Software** (TSX:CSU) is almost a no-brainer choice. The company has been growing steadily for well over a decade and has reached a price tag of over $2,170, which is almost unprecedented on the **TSX.**

And the growth is not just consistent and steady; it's powerful. The company offers a 10-year compound annual growth rate (CAGR) of 43.7%, a number only a handful of other stocks might be able to match across the TSX. The software giant is acquisition-focused, but it also develops and deploys software solutions for a select group of industries. It also pays dividends, but the yield is too small to matter, especially compared to the growth potential.

Constellation Software is almost always overvalued. Currently, it's trading at a price-to-earnings of 106.2, and the price-to-book is 41.4, though we can chalk it up to the unusually high price tag.

Foolish takeaway

Not all overvalued growth stocks are good buys, but these two are. The consistency and pace of the growth they offer can easily make up for the overvalued price if you hold on to them for long enough. Given their histories, these stocks *can* keep growing at their current pace for a decade or so, enough time to offset the overvaluation with growth.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:WCN (Waste Connections)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:WCN (Waste Connections)

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