3 Tech Stocks to Buy During the Market Correction

Description

Depending on which sector you invest in, your stocks are either near all-time highs or dipping into a severe correction. The past year has been brutal for tech and growth stocks, while oil and gas stocks have had an incredible run. Since Canada's broader stock index is dominated by banks and energy companies, it doesn't fully reflect this divergence.

However, I believe the best time to bet on a sector is when it's plunging, not soaring. With that in mind, here are the top three tech stocks to buy in 2022.

Tech stock #1

Constellation Software ([TSX:CSU](#)) is Canada's most underrated stock. Over the past three decades, this company has been silently acquiring some of the most profitable niche software firms across North America. After 300 acquisitions, this conglomerate is now one of the best enterprise software bets on the market.

Constellation's secret sauce is predictable recurring income. Software subscriptions are an excellent way to generate cash flow. Meanwhile, over half of the company's revenue is generated from government agencies, which enhances the retention rate. Constellation's earnings are less exposed to the business cycle, which makes it a better bet.

However, the stock is certainly exposed to the market cycle. The stock is down 11.6% year to date. It's trading at 26.3 times free cash flow per share. That implies an FCF yield of 3.8%.

Free cash flows are also expected to grow substantially over the next decade. Constellation's team has decided to look for bigger acquisitions in sectors beyond software and technology. That means the addressable market was expanded recently, and investors can expect even more growth in the long run.

Tech stock #2

Topicus (TSXV:TOI) is a spin-off from Constellation Software. Several senior executives from the Constellation team sit on the Topicus board. Their focus is on software acquisitions in Europe. So far, the model seems to be working.

In 2021, revenue increased 50%, while cash flows increased 16.5%. However, the stock price outpaced this growth. Topicus stock doubled in value over the course of 2021, which means investor expectations were already priced in. The excitement has now worn off. Since November, the stock has lost 44% of its value. It's now trading at a much more attractive level.

Investors looking for a long-term bet should certainly add Topicus to their watch list.

Tech stock #3

Shopify (TSX:SHOP)(NYSE:SHOP) is, perhaps, the most interesting tech story on the Canadian market right now. Last year, this company could do no wrong. This year, it seems it can do no right.

Growth expectations have declined for the year ahead. Meanwhile, the company's roll out of fulfillment centres hasn't been smooth. There are plenty of hurdles ahead and the stock probably deserves a lower valuation.

However, the stock market seems to have priced-in all these challenges *and then some.* For context, Shopify stock is now cheaper than it was before the pandemic. It's trading at the same level it was in early 2020. However, sales, income, and the number of merchants on the network have increased dramatically since then.

Shopify has also launched new business verticals in recent years. It has a payment platform that accepts cryptocurrencies, a lending service that offers merchant loans, and even a banking service. Essentially, Shopify's target market has expanded beyond e-commerce into FinTech. That should boost its growth potential over the long term.

Keep an eye on Shopify stock in 2022 and beyond.

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2. TSX:CSU (Constellation Software Inc.)
3. TSX:SHOP (Shopify Inc.)
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