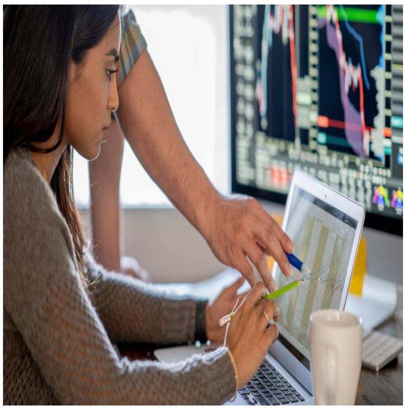

2 Top Canadian Tech Stocks to Watch in April

Description

It's been a rough start to the year for many tech-focused Canadian investors, with shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) leading the downward charge. Although there's no telling if the pain is over for high-multiple growth stocks, I think that it would be a wise idea for some of the younger and more courageous investors out there to at least begin thinking about dollar-cost averaging into a longer-term position. Like it or not, there's a lot of damage that's already been done to the growth stocks.

Rate hikes are bad for growth companies that don't see profitability anytime in the near future. The further out you need to look for real free cash flows, the more punishment a stock will have to take. When it comes to the many pie-in-the-sky growth plays in the tech sector, I think it's starting to become clear that future profits may begin to be in jeopardy, given intense competition and a difficulty on the part of the investor to anticipate what technological trends will emerge and dominate over the next decade.

Growth investing is no longer easy money!

It's not easy to be a growth investor, unless, of course, we're in a 2020-style of environment, where you could literally throw darts at a board of tech names and do very well over the near to medium term. Today's environment punishes investors who get euphoric or neglect profitability prospects. Growth always matters, but there's a difference between quality growth and low-quality growth companies. Companies like Shopify are in the former category.

While its multiple is high, it has a realistic plan to sustainably pivot into profits in the future. Further, it's shown that it can compete against the likes of some pretty scary behemoths out there! Think **Amazon** and **Alphabet**, which are hungry from Shopify's slice of economic profits in the small- to medium-sized e-commerce space. Further, Shopify has brilliant managers, and they may very well be worth paying a 20 times sales multiple for!

Sure, Shopify could retest its first-quarter lows if rates need to rise more than eight times to conquer inflation. But it's one of few names that I believe will eventually recover, whether it takes a year or five.

It’s too high quality a company, with way too many growth pathways it can pursue to unlock next-level growth. Also, it exhibits many of the same traits as the big tech stocks atop the S&P 500. Profits tend to follow these leaders in due time. Remember, Amazon was a sales growth company before it started making actual earnings. If you waited, you likely missed out on a lot of upside.

Kinaxis: A smaller, cheaper growth stock for bigger gains?

Now, I’ll admit 20 times sales is hard to justify if you’re a value investor. That’s why I like names like **Kinaxis** (TSX:KXS), a supply-chain management software developer with a much more enticing multiple. With COVID cases threatening global supply chains yet again in 2022, the need for Kinaxis’s products and scenario analysis will be vital. Nobody wants more supply chain hiccups, but with COVID continuing to weigh, the time for next-generation technologies to solve such supply-side woes will be needed.

Kinaxis goes for 14.2 times sales. It’s not cheap but also not as expensive as the likes of Shopify.

CATEGORY

1. Investing
2. Tech Stocks

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1. NYSE:SHOP (Shopify Inc.)
2. TSX:KXS (Kinaxis Inc.)
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