This Profitable Tech Stock Is Making Canadian Investors Super-Duper Rich!

Description

Some pundits are blaming rising interest rates as one of the causes of the tech stock crash. However, **Constellation Software** (TSX:CSU) stock has been holding up super well. It has essentially consolidated since September 2021.

Past returns indicate future return potential

Constellation Software has been persistently growing its profits in the long run. In the last 10 years, the tech stock delivered total returns at a compound annual growth rate (CAGR) of approximately 39%, which was roughly three times the market returns! That translates an initial CSU investment of $10,000 to $279,529, which was nearly a 28-bagger over a decade!

Its return on assets (ROA) has oscillated between 6.1% and 14.5% but spent half of the time in the 10-12% range in the period. Its five-year ROA is 10.8%, which is almost double that of the market. When combined with the use of leverage, its return on stockholders' equity (ROE) has been even higher, ranging 29-59%. Specifically, its five-year ROE is 48.7%, which is three times the market ROE. So, it's been making high returns for its stockholders.

The tech company's three-year revenue-growth rate is 18.6%, which is very solid growth. Its annual revenue has passed the US$5 billion mark. In the period, it increased gross profit by 19.2%, which is a positive sign, as it's a higher rate than revenue growth. Its gross profit reached almost US$4.58 billion last year. Its gross profit rate is incredibly high at 89.6%. Management also has excellent control of its operating expenses. Its three-year operating income increased 20.9% per year, reaching US$936 million in 2021.

Can Canadians still get rich from investing in this tech stock now?

With Constellation Software's exceptional execution, you can imagine that the growth stock hardly goes on sale. Additionally, it's trading at a much higher valuation than it was 10 years ago. Essentially, its multiple expanded from about 12.4 times to over 37 times earnings.

While analysts expect Constellation Software to be able to boost its earnings per share in the teens percentage, investors should adjust their returns expectations over the next decade. It most definitely won't be as good as the last 10 years because of the multiples expansion. However, it could still deliver market-beating returns at a compound annual growth rate of 12-15% if management continues to execute the business as it has. Based on this rate of return, investors can double their investments in five to seven years.

Here are Christine Poole's thoughts on Constellation Software last month:

> "It grows by acquisition. It had held up well in the face of rising interest rates. Weakness in tech companies opens opportunities for Constellation Software to acquire other tech companies. A strong company with good managers, however, there's not much organic growth."

Since the tech company grows primarily by acquisition, in certain economic conditions, it may have trouble finding the right targets or targets that will make a meaningful difference to its profits due to the law of large numbers.

The solid tech stock trades above its 50-day simple moving average (SMA) and has a 200-day SMA that is in an upward trend.

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