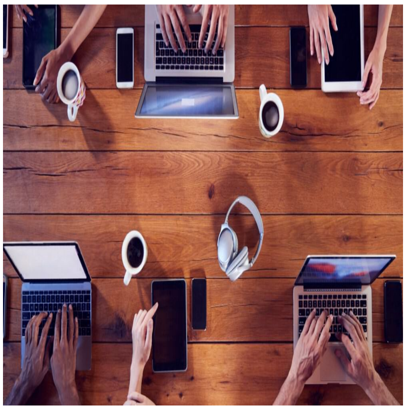
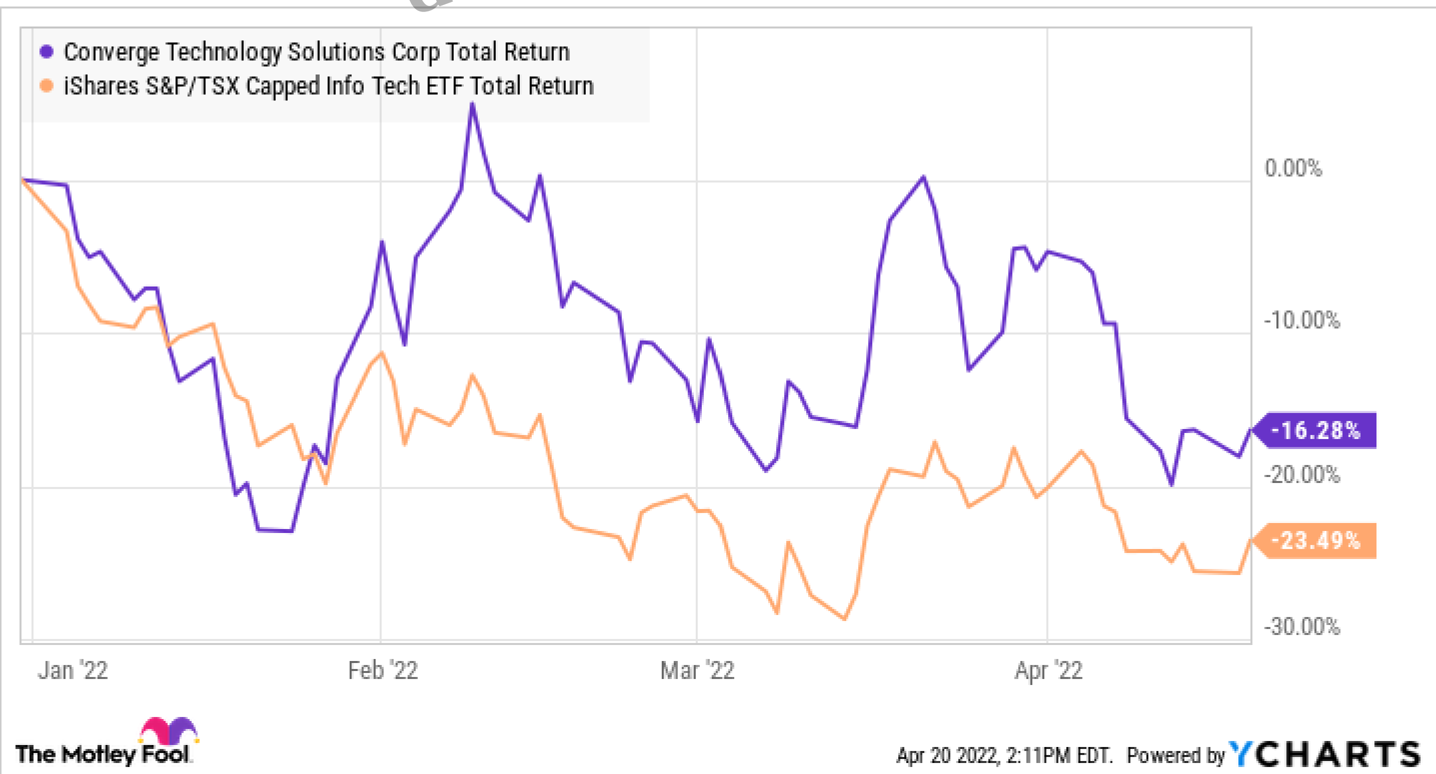


1 Canadian Tech Stock Continues to Lead the Pack

Description

Billions of dollars have flowed out of tech stocks. Pundits blame rising interest rates. Investors are also running for the hills when it comes to tech stocks that are not profitable or have unpredictable earnings. In comparison to the whole tech stock bubble burst, **Converge Technology Solutions** (TSX:CTS) stock has held up rather well.

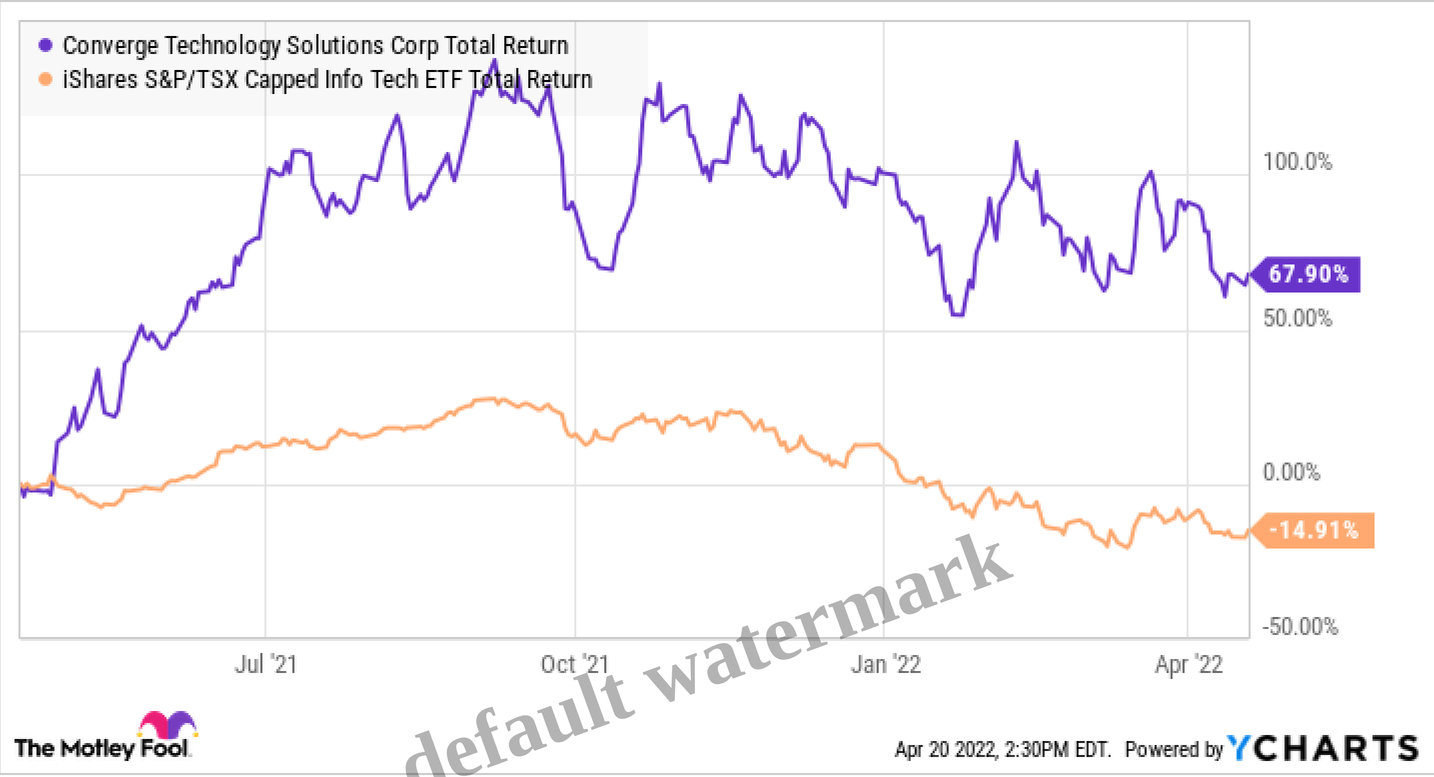
The small-cap stock has been more resilient to the tech stock selloff, as shown in its year-to-date price action versus a Canadian tech exchange-traded fund.



CTS Total Return Level data by YCharts

Its longer-term price action is even more convincing that it can continue to lead the pack.

Here’s the one-year price action.



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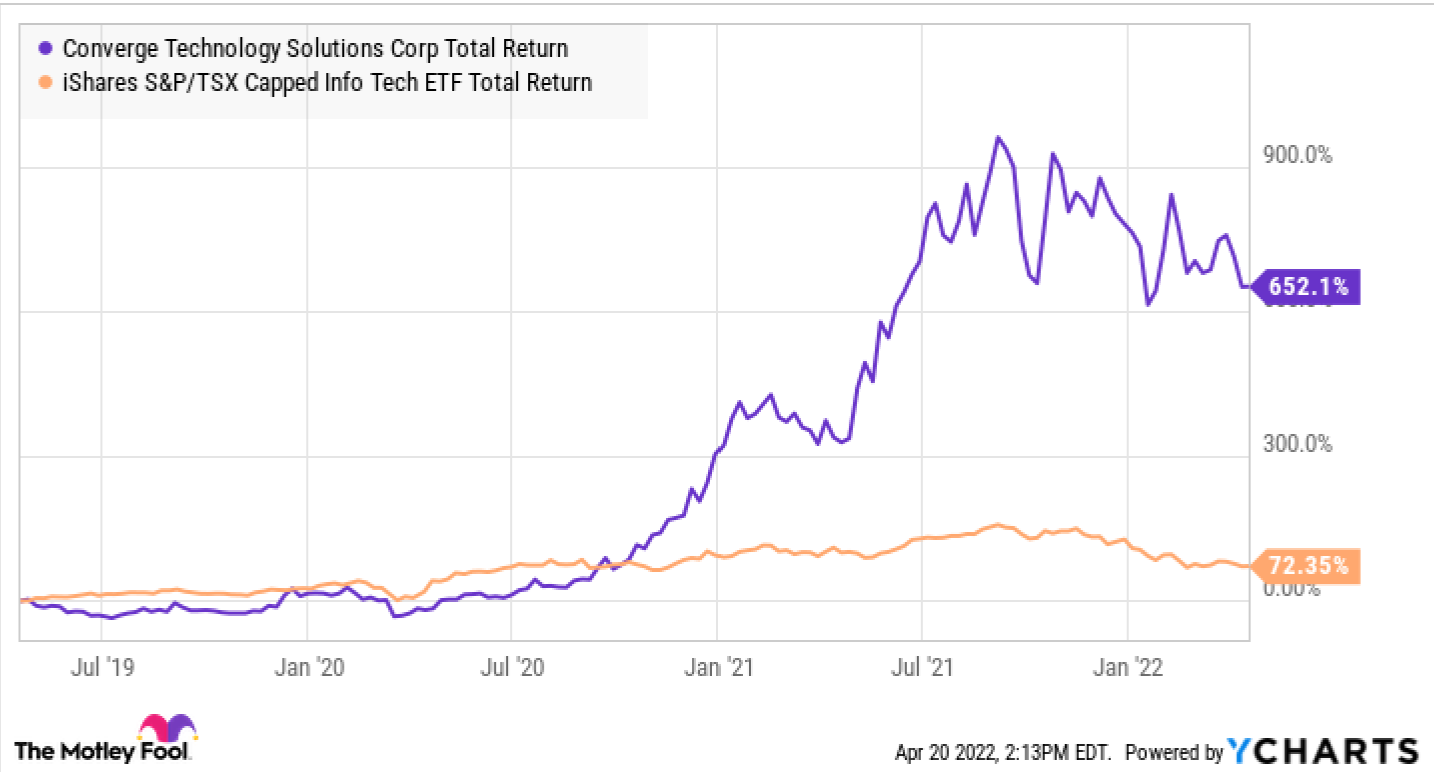
And here’s the three-year price action.



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Converge Technology stock: A business overview

Because it's still small and growing by acquisitions, Converge is one of the fastest-growing IT service providers in North America. It offers hybrid IT solutions to the mid-market and has been employing a successful M&A strategy due to its cross-selling and integration capabilities.

Because of its focus on the mid-market, it's able to provide more customized technical workshops and executive briefings for its clients and potential customers, thereby boosting the success of its cross-selling efforts.

Converge offers solutions in digital infrastructure, advanced analytics, cloud, managed services, cybersecurity, and IT talent acquisition. For example, it has the capability to provide AWS, Azure, and IBM cloud solutions, etc., for its clients. It provides solutions and services that help its clients reduce costs, increase efficiency, and create competitive advantages.

Strong growth and profitability

Converge Technology's revenue surpassed the $1.5 billion mark in 2021, while it has improved its gross profit margin from 19.6% in 2018 to 22.6%. Its operating income margin has also expanded from 2% to 3.3%. So, other than growing its top line, management is also controlling costs. Last year, the tech company achieved operating income of north of $50 million.

Last year was also its first yet of reporting net income. Specifically, it was a net profit of $15.9 million. The company is growing tremendously through acquisitions. It also experiences organic growth. Its organic growth in 2021 was a solid 9.6%. The table below displays a quick view of Converge's recent growth rates.

	One-year growth rate	Three-year growth rate
Revenue	61%	49%
Gross profit	48%	57%
Operating income	69%	76%

Acquisitions

The company's recent acquisitions include Creative Breakthroughs, a cybersecurity solutions provider, and Interdynamix (IDX), a next-generation systems integrator. Management sees room for expansion in North America and Europe. Additionally, it's also working on improving its margins. In particular, its EBITDA margin was almost 6.2% last year. Longer term, management is aiming for an EBITDA margin of 10%.

Strong cash flows and balance sheet

You know Converge is doing things right when it's growing its cash flows. 2019 was the first year it experienced free cash flow. Since then, its free cash flow has more than tripled to nearly $80.8 million last year. The tech company's bookings backlog increased by about $100 million to approximately $350 million in Q4 versus Q3 2021. The backlog was purchase orders received from customers that have not yet been delivered at the end of the fiscal period, which suggests strong demand for its products and services.

The company has little long-term debt, as it has been successfully raising capital as needed from equity offerings because of its stock price strength. At the end of 2021, its current ratio and debt-to-asset ratios were 1.3 and 52.6%, respectively.

At about $9 per share, analysts think the growth stock is undervalued by 35%. Investors seeking price appreciation over the next five years should take a closer look at the fast-growing name.

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