Down 14%, Is Constellation Software Stock a Steal Today?

Description

Constellation Software (TSX:CSU) hasn't had the best 2022 so far. Shares of the tech stock are down 14% since January, as other tech stocks fell around it. Yet the question is whether this fall is warranted. So, let's look at why Constellation Software stock has been falling, and if it's due to fall further or recover.

A true success story

Constellation software stock is a true Canadian success story. Coming on during the early days of software, the company quickly became an acquisition powerhouse. Rather than keep its eye on large acquisitions, management looks for value with small of necessary software companies — small, necessary, and *valuable*.

Constellation software stock will buy up a library software company, for example. It then gives it the resources it needs to improve and therefore jack up prices. Then Constellation gets a piece of the action.

It does this again and again, creating a stable and growing revenue stream through this acquisition strategy that's worked for decades.

What happened?

Shares of Constellation software stock have grown over 8,000% since 2008. It's up 225% in the last five years alone. That's growing from a share price of about $25 to where it is today at $2,028 as of writing. The problem is, that's a *lot* of growth in a relatively short period of time.

Now, tech stocks like this one are going through a bit of a crash. Many are worried that the growth companies like Constellation software stock once enjoyed is bound for a dip if not a drop. Now, of course, this doesn't come necessarily from Constellation itself but from the performance of its acquisitions coupled with their price points.

Constellation is great at finding a deal, but this could be harder and harder in the years to come with soaring tech prices. Furthermore, they then have to prove these companies will turn around and make a profit. And after three years of earnings increases, in 2021, earnings were the lowest they've been since 2018.

Now what?

That being said, the company also posted the most amount of revenue ever at $5.11 billion. While it might seem like a difficult position to find and acquire valuable tech stocks, management seems to take that task to hand. So, while shares may be overvalued right now, trading at 108 times earnings, this is not a short-term hold.

No, instead I would absolutely consider Constellation software stock as a hold if not a buy, and that's for long-term performance. The company has proven itself in this difficult and competitive industry. It has the cash on hand to continue making valuable purchases and turning them around. Plus, while earnings are less, the last two years were strong for the tech sector. While tech stocks are down now, they're due for a recovery at least in 2023.

For now, Constellation Software stock provides a great jumping-in point down 14% year to date. Plus, you can lock in its 0.24% dividend yield of $5.06 per share annually. Just be prepared for volatility over the next year before the stock soars higher once more.

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