These Tech Stocks Are Finally Trading at a Discount

Description

For several years, tech stocks have evaded gravity. Software companies and e-commerce giants have traded at a premium valuation. That era is now over. Valuations have plummeted, which means some high-quality tech companies are finally looking like bargains.

Here are the top two tech stocks that are trading at a discount to fair value right now.

Discount tech stock #1

Constellation Software (TSX:CSU) has been the most persistently expensive tech stock on the Canadian market. The enterprise software conglomerate recently announced that it was doubling down on its acquisition-driven growth strategy. That means cutting back the dividends and deploying more cash into purchase targets.

The company also indicated that it would look for bigger companies beyond the traditional software sector. In other words, it's transforming into a typical investment holding company.

Constellation recently declared $417 million in quarterly free cash flow. That means annual cash flow in 2022 could be as high as $1.7 billion. Meanwhile, the stock has dropped 19% from its all-time high in December. Effectively, Constellation stock now trades at a price-to-FCF ratio of 24.5. That's the lowest ratio in years.

Put simply, Canada's best software company is finally trading at a discount to fair value. Keep an eye on this opportunity.

Discount tech stock #2

Open Text (TSX:OTEX)(NASDAQ:OTEX) has suffered the same fate as the rest of the market. The stock is down by 27% from its 52-week highs and down by 17% year to date. The enterprise software provider is a unique machine learning play. However, this segment of the market is deeply discounted right now. Investors are seeking safe havens, not innovation.

Amid the deep pullback, the Open Text's long-term outlook remains bullish. The company's strategic partnership with Google Cloud is an underrated catalyst. The partnership should pave the way for Open Text Core Content launching on Google Cloud.

Meanwhile, Open Text should be able to deliver a next-generation productivity platform with low latency and secure access. The integration should accelerate the deployment of the company's productivity suite, which should strengthen the revenue base.

The company is also fresh from delivering solid second-quarter results. Adjusted EBITDA of $343.45 million and free cash flow of over $200 million. In addition, it ended the quarter with strong liquidity and a balance sheet expected to enhance its capabilities to make strategic investments likely to drive organic growth.

Despite the +27% pullback from all-time highs, Open Text boasts of tremendous growth potential backed by a solid product portfolio. Google's strategic partnership only strengthens its product line and long-term prospects. The stock is currently trading at 20 times earnings per share and 10 times free cash flow per share. Compared to its historical average, Open Text now looks like a bargain.

Bottom line

The ongoing correction in tech and growth stocks has created plenty of opportunities. High-calibre software giants like Open Text and Constellation Software are now looking like bargains. For long-term investors with cash on hand and a stomach for drawdowns, this could be the best time to add exposure here.

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1. Investing
2. Tech Stocks

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