2 Tech Stocks That Could Rebound Quicker Than Others

Description

It's been a rough year for tech stocks. Rising interest rates and lower growth expectations have deflated the sector. Even large-cap tech stocks that seemed impenetrable last year have lost roughly half their value since the downturn began.

For most of these companies, there's no easy escape. However, some stocks could rebound much faster based on their fundamentals. Here are the top two tech stocks that seem oversold and could have brighter prospects in the second half of 2022.

Government tech stock

Enterprise software companies have sticky and predictable cash flows. Their clients are reluctant to cut software subscription costs and migrate to other systems even during a downturn. That puts tech conglomerate **Constellation Software** (TSX:CSU) in a good position.

In fact, roughly half of Constellation's clients are government agencies. That means there's higher retention and more stability in the company's client portfolio. That portfolio is expanding organically, while the parent company adds more acquisitions to drive inorganic growth. Revenue increased 22% in the first quarter of this year.

Free cash flow, meanwhile, is up 20% to $324 million over the same period.

Constellation stock has dropped just 14.5% since the start of this year. That's better than most of its peers. It could also rebound quicker, as its recent string of acquisitions are completed and reflected in its quarterly earnings reports. Assuming a similar pace of growth for the rest of the year, the stock could be trading at a price-to-FCF ratio of 28.

Keep an eye on this undervalued growth opportunity.

Healthcare tech stock

WELL Health Technologies (TSX:WELL) is another potential rebound stock that should be on your radar. Unlike its peers, WELL Health hasn't seen a slowdown in growth or compression in margins. Instead, the company is still delivering impressive gains.

The company is still making inroads in the U.S., as it acquires more startups and expands its network of telehealth services. Meanwhile, fresh funding from early backers like Mr.Li Ka Shing should allow the company to double down on its growth efforts.

So far, the track record has been impressive. WELL Health reported a 395% surge in revenue for the first quarter of this year. The company also raised its full-year guidance for revenue from $500 million to $525 million.

Based on this forecast, the stock is currently trading at a price-to-sales ratio of 1.6. Put simply, it could rebound to all-time highs if the ratio adjusts back to the industry average. Keep an eye on this opportunity.

Bottom line

Nearly every tech stock in North America has lost value this year. The ongoing correction is driven by concerns about inflation, valuations, and slower growth. For most companies, these concerns are justified.

However, some stocks have been punished even though they were already cheap. Companies like Constellation Software and WELL Health Technologies simply need to execute their growth plans as expected to rebound sharply in the near future. Keep an eye on these overlooked opportunities.

CATEGORY

1. Investing
2. Tech Stocks

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2. TSX:WELL (WELL Health Technologies Corp.)

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