



1 Fabulous Tech Stock to Buy in This Correction

Description

Rising interest rates have triggered a mountain of stock valuation re-rates to the downside by analysts, which is one of the many reasons why we're experiencing a market correction. Here's one Warren Buffett quote that is perfect for today's economic scenario:

"It's only when the tide goes out that you learn who has been swimming naked."

While many stocks are trading at lower levels year to date, not all are buying opportunities. The ones that will be swimming naked when the stock market correction is over will be those that aren't able to service their debt and have non-durable earnings. Simply put, investors need to be selective.

Here's one of the best [tech stocks](#) that investors can buy in this correction.

A fabulous tech stock to buy and forget

Veteran investors are probably familiar with **Constellation Software** ([TSX:CSU](#)), which is easily one of the best-performing **TSX** stocks. In fact, it has turned early investors into millionaires. An early investment of \$10,000 would be worth about \$1.37 million today. Even the same initial investment made 10 years ago would still be worth a whopping \$247,780 — greatly outperforming the Canadian and U.S. stock market returns.

Below is a 10-year total-return comparison of Constellation Software stock versus various stock market [ETFs](#). It's obvious that the tech stock has been the best buy-the-dip opportunity throughout the decade. It's no different this time in this market correction.



CSU Total Return Level data by YCharts

Constellation Software stock

Constellation Software is a consolidator of vertical market software businesses. And as its long-term returns show, its M&A strategy has been incredibly successful, and it has proven to manage these acquired operations very well.

Of course, it also helps that many of these businesses provide mission critical software solutions for the customers they serve. Altogether, the tech company has been able to generate substantial free cash flow and revenue growth. Much of its revenues are also recurring, including software licence fees and maintenance fees.

In the past 10 years, the tech company increased its revenues, operating cash flow per share, free cash flow per share, and adjusted earnings per share by 20.8%, 29.1%, 28.5%, and 24.6%, respectively.

The company enjoys high gross margins. It was 89.5% in the trailing 12 months (TTM), up 1% from 2019 pre-pandemic normalized levels. Similarly, its TTM operating margin was 17.9%, an improvement of roughly 1.2% from 2019.

The company's five-year return on assets, return on equity, and return on invested capital are 10.5%, 47.7%, and 28.2%, respectively. These suggest good returns on assets and a great allocation of capital and excellent use of leverage to generate high returns.

The Foolish investor takeaway

Constellation Software is a wonderful business to buy in this market correction. Shares are attractively priced today, trading at a discount of close to 30%, according to the analyst consensus price target.

The tech stock trades at below 31 times earnings and is expected to continue growing at a double-digit rate in its top and bottom line. The market downturn can continue to weigh on the stock, though. Therefore, investors should consider using [online brokerages](#) like Wealthsimple that allow for partial share buying.

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Date

2025/07/23

Date Created

2022/06/23

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