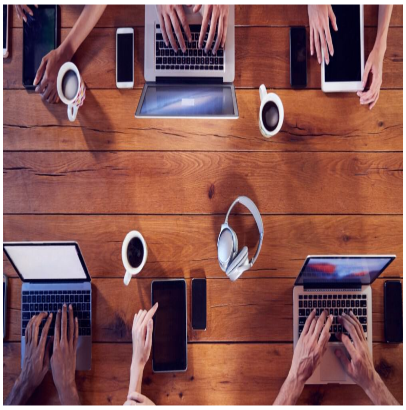

Better Than Shopify? This Growth Stock Is Still up Over 12 Months

Description

Shopify (TSX:SHOP)(NYSE:SHOP) has taken a beating this year. It's down about 70% year to date, and 80% from its all-time high. For many investors, it has been just another textbook case of the risks inherent in growth stocks. With high (potential) returns comes high risk, and this year, few stocks are illustrating that principle better than Shopify.

It would be a mistake to think that all growth stocks are in the same boat, however. While growth stocks are down as a group, a few individual ones are doing OK. Generally speaking, growth stocks with more modest valuations are doing better this year than their richly valued peers. In this article, I will explore one TSX growth stock that is still up over a 12-month period.

Constellation Software

Constellation Software (TSX:CSU) is a Canadian technology holding company that uses a venture capital approach to pick investments. It finds relatively small companies that have established revenue, then it acquires and grows them. Unlike many venture capitalists, Constellation CEO Mark Leonard doesn't invest in businesses at the "idea" stage. Instead, he looks for small companies that are generating sales (and ideally profit) already.

It's not the most conventional approach, but it has worked. Over the years, Leonard has built CSU into a Canadian tech giant with $1.43 billion in revenue, $98 million in earnings, and $498 million in cash from operations. Its CFO margin is a very high 34%, suggesting strong profitability. Compared to the average VC with dozens of unprofitable "tech unicorns" on the books, this is a veritable profit machine!

The stock market seems to agree. Since going public in 2006, CSU stock has risen more than 10,000%. That's enough to turn a $10,000 investment into a million dollars. Certainly, CSU has given investors the goods. And it may continue to do so.

Why it's outperforming Shopify

CSU stock is down this year, like most tech stocks are. However, it's still up over a 12-month period, sitting on a small 2% gain. Shopify is down 77% over the same period.

Why is CSU outperforming SHOP by such a wide margin?

It comes down to two factors:

1. Profitability
2. Valuation

CSU is, in most quarters, profitable. When it isn't, that's usually due to accounting technicalities — operating income is almost always positive. Shopify, by contrast, has a much shakier profit history. It only swung profitable in 2020 and actually ran a $1.5 billion net loss in the most recent quarter. It just doesn't have the proven track record CSU has, and that's showing up in the stock price.

The second factor contributing to CSU outperforming SHOP is its valuation. This year, interest rates are going up, and that's leading investors to prefer stocks that have more modest valuations. At today's prices, CSU trades at "only" 73 times earnings and 5.7 times book value. Those aren't dirt-cheap multiples by any stretch of the imagination, but they're certainly lower than where SHOP was at when it traded for $2,000. So, it's no surprise that CSU is outperforming SHOP this year. It's delivering investors more value per dollar spent.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:SHOP (Shopify Inc.)

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1. Investing

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