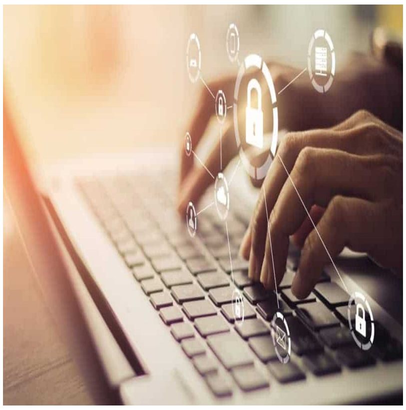

2 Top TSX Tech Stocks to Buy During a Recession

Description

It's been a nightmare holding tech stocks this year. TSX tech stocks have lost 45% this year, which is much worse than the **TSX Composite Index**'s drop of 14%.

Notably, we are still in the middle of the rate hike cycle. So, the weakness could persist, at least for some time. Meanwhile, a couple of technology names have stayed strong this year and have notably outperformed peers. Here are two of them that will likely continue to perform well even during a recession, mainly due to their business strength and stable financials.

Constellation Software

While some top TSX tech stocks have lost 50%-70%, **Constellation Software** (TSX:CSU) has lost merely 12% this year. Its outperformance is quite noteworthy, considering the severity of the drop and premium valuation of CSU.

Stocks lose steam during a recession as their profit growth and margins take a hit. Rising interest rates also dent their future cash flow growth, as we've seen with the steep correction this year. However, CSU stock has stayed firm in 2022 because of its unique business model and resilient financials.

Constellation Software acquires smaller vertical market software companies that have a leading market share in their respective areas. Plus, it serves both private and public customers, which enables stable revenue growth in almost all economic cycles. For this very reason, CSU stock was relatively resilient during the pandemic crash in March 2020.

In the last decade, Constellation Software managed to grow its revenues and earnings by 21% and 14%, compounded annually. CSU stock has returned almost 2,000% in the same period.

Interestingly, the company becomes more aggressive in economic downturns. As smaller companies are generally disproportionately hurt in these scenarios, CSU flexes its muscles and expands actively, driven by its balance sheet strength. According to RBC Capital Markets and as reported by BNN Bloomberg, CSU completed a record US$1.2 billion worth of deals in the first half of 2022.

So, its diversified revenue profile and margin stability stand tall. This will likely play out well in almost all business cycles, creating stable shareholder value in the long term.

Absolute Software

Another name that has flourished this year is **Absolute Software** (TSX:ABST)(NASDAQ:ABST). It has soared 35% this year, shrugging off all the broad market fears and rate hike woes.

Absolute is an $800 million cybersecurity company that provides data protection and online security products. Its solutions are used in more than 600 million devices.

The primary reason for Absolute's surge this year has been its steep revenue growth. In the last four quarters, its revenue growth averaged around 63% year-over-year compared to its long-term average of close to 10%. Note that although Absolute reported record topline growth in the last four quarters, it also reported a loss in the same period and its gross margins took a hit this year.

While many tech companies have seen a dent in their revenues, Absolute's impressive revenue growth stands tall, particularly in these markets.

ABST stock is trading 25% lower than its all-time high of close to $20. It doesn't look too cheap from a valuation perspective. However, consistent revenue growth could enable the stock to move toward record levels.

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