



## Why I Own Constellation Software Stock

### Description

Owning a tech stock is deeply unfashionable right now. Blue-chip tech giants have lost as much as half their value this year. Investors are still retreating from the sector, as they move money to commodities and dividend stocks.

In this environment, I prefer to be a contrarian. I added Canada's most impressive [tech stock](#), **Constellation Software** ([TSX:CSU](#)), to my portfolio earlier this year. I've steadily bought more along the way and the stock is now one of my largest holdings. Here are three reasons why I continue to own Constellation Software stock.

### Recent acquisitions

Constellation's growth over the past 30 years has been driven by over 500 acquisitions. The company picks up a handful of small- and mid-sized niche software providers every year. Over time, these acquisitions expand the conglomerate's earning power.

This year, the company has spent more on acquisitions than ever before. In the first half of 2022, Constellation deployed over \$1 billion in purchase deals. That's higher than it did in all of 2021. I believe the pace of acquisitions has sped up because valuations in the software sector are so low. This experienced team is rapidly adding [high-quality companies](#) at excellent prices to its portfolio.

The best example of this is Constellation's latest acquisition of **Allscripts's** assets. The company is purchasing the Hospitals and Large Physician Practices business segment for US\$700 million (CA\$504 million). The segment generated US\$928 million (CA\$668 million) in revenue last year. That's a bargain for a high-quality business.

In the next few years, I expect these acquisitions to boost the company's free cash flow by a significant margin.

## Sticky cash flow

While the company is aggressively betting on long-term growth, its current position is secured by long-term contracts with high-quality clients. Nearly half of the clients for Constellation's niche software tools are government agencies. These contracts tend to be lucrative and sticky.

Meanwhile, the company's portfolio is heavily focused on mission-critical software. This means its tools are required for business functions such as accounting and data management that are not easy to cut during recessions.

This is why the company's recurring revenue jumped 29% year over year in the first six months of 2022. Put simply, Constellation is making more money, even as the world deals with inflation and a bitter recession.

## Fundamentals

Constellation Software stock is trading at just 24 times forward earnings per share. Since 2019, this ratio has been consistently above 30, dropping to 21 only briefly at the height of the pandemic.

Put simply, Constellation's valuation today is nearly the same it was when the pandemic broke out and the stock market crashed in early 2020. This valuation seems unjustified given Constellation's financial strength, track record, and recession resistance.

That's why I continue to hold and perhaps expand my stake in CSU stock.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)
2. NASDAQ:MDRX (Allscripts Healthcare Solutions)

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