2 Under-the-Radar Growth Stocks to Buy and Hold

Description

Growth stocks have experienced a worse selloff in this market correction than value stocks. Partly, it has to do with the fact that the former traded at higher valuations than the latter prior to the correction. That is, growth stocks had much greater price appreciation previously.

Here are two under-the-radar growth stocks in the tech space that you could buy and hold. Over the next five years (and beyond), there's a good chance they could deliver very strong price appreciation.

Topicus stock

Topicus.com (TSXV:TOI) was spun off from **Constellation Software** in 2021. It was a super success soon after the spinoff, as at one point, the tech stock more than doubled investors' money. Now, Topicus stock is trading at around its spun-off price again.

Investors can visualize the potential of Topicus by looking at its parent company, Constellation Software, which has easily been one of the best-performing stocks on the TSX. Specifically, Constellation Software has returned annualized returns of close to 35% per year over the last decade. So, in the period, it grew investors' money 19-fold.

Topicus provides vertical market software and platforms to its clients. It employs a similar mergers and acquisitions (M&A) strategy as Constellation Software, but its focus is in Europe, and it's much smaller. To get an idea, Topicus stock's enterprise value is about $6.2 billion, which is only about 15% of the enterprise value of Constellation Software.

Because of the smaller size of Topicus, it has higher growth potential than its parent. Additionally, it can learn from Constellation Software's strategy and stick with what works well.

Investors focused on long-term price appreciation should take the opportunity to accumulate shares in Topicus after a major selloff that shaved off half the stock's value.

Another under-the-radar growth stock

Converge Technology Solutions (TSX:CTS) is another fast-growing tech stock that grows from M&A. Since April 2021, it has made at least 14 acquisitions. It continues to expand in North America. It has also begun acquiring in Europe, setting it up for a long growth runway.

Its three-year net revenue compound annual growth rate (CAGR) is 49%, which drove adjusted EBITDA, a cash flow proxy, growth at a CAGR of 79% in the period. Additionally, it has room to drive margin expansion as well.

The stock originally traded on the venture exchange. It was a great achievement for it to graduate and ascend to the TSX. Still, as a relatively small stock, it is still under the radar. Its enterprise value is roughly $1.4 billion.

Converge has a clean balance sheet with essentially no debt. It also has earnings, unlike many tech stocks (some even larger) that are operating at losses. The company provides solutions to mid-market clients. Its diversified set of solutions are across cloud platforms, managed services, advanced analytics, digital infrastructure, cyber security, and tech talent acquisition. After making acquisitions, it's able to cross sell its offerings and reduce costs.

At $6.69 per share, the consensus 12-month price target across 13 analysts indicates the stock is undervalued by about 37%.

If you have a long-term investment horizon and the patience to ride through the market volatility, you can consider picking up some shares in these undervalued growth stocks as a part of your diversified investment portfolio.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:CTS (Converge Technology Solutions)
2. TSXV:TOI (Topicus.Com Inc.)

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