Value Investors: Why Constellation Software Stock and This Canadian REIT Are Deals Today

Description

The **TSX Composite Index** has slumped over 10%, heading into a bear market. The dip has created an opportunity for value investors to go stock shopping this holiday season. Some growth and dividend stocks are falling because the entire market is in sell mode, while their fundamentals remain unaffected. Such stocks are worth buying during the dip. Now is the time to buy two stocks that have touched a 52-week low.

Constellation Software stock

Constellation Software (TSX:CSU) has slipped 20%, or by $490, from its high and is trading closer to its 52-week low. What caused the 20% fall? Hedge funds ignited the tech stock meltdown on December 31 due to early warnings that the Federal Reserve would pull back stimulus money and increase interest rates. All tech stocks temporarily enjoyed inflated prices as individuals invested their stimulus money. With the stimulus pullback, inflated prices got a reality check and was corrected.

Constellation stock got caught in the sell-off and fell 20%. It entered the oversold category on October 14. The company's management used this sell-off in the tech space as an opportunity to buy some attractive, small vertical-specific software companies. It invested a record US$1.2 billion in acquisitions in the first half of 2022. And Constellation didn't stop there; it has many more deals in the third quarter.

As an umbrella company for software services, these deals will accrue on Constellation's earnings per share (EPS) and cash flow. A pre-requisite for its deals is that companies have regular recurring cash flows. These cash flows might slow down as enterprises cut back on spending, but they could accelerate in the future. By the time the bear stint recedes, and recovery begins, Constellation will have acquired a sizeable number of companies with recurring cash flow.

Constellation stock has lost almost 16 months of upside and is back to June 2021 levels. Now is the time to buy the stock. A single stock can earn you over $500 in a year when the effects of a recession recede, and cash flows from those acquired companies reflect in the stock price.

Investing in real estate stocks

Real estate is another sector that has been hitting new lows. Rising interest rates have made mortgages expensive, and inflation has increased the rental spread, making up for the two-year rent stagnation during the pandemic. Current conditions are challenging, but **CT REIT** (TSX:CRT.UN) has the backing of **Canadian Tire**.

CT REIT

Canadian Tire spun off its stores into a REIT and named it CT REIT. Hence, CT REIT's biggest tenant is Canadian Tire, and the retailer serves as an anchor to pull other retailers near its stores. The REIT enjoys a 99.4% occupancy ratio and weighted average lease term of 8.6 years. These two metrics ensure cash inflows through rent.

This REIT is more inclined towards rent and less invested in developing and reselling properties. Hence, any reduction in the value of its property portfolio won't impact its distributions. Moreover, the REIT maintains a safe distribution payout ratio of 75% despite increasing the distribution at an average annual rate of 3.2% since 2014.

CT REIT survived the short pandemic-related recession without any distribution cuts. It can likely withstand a longer recession by stagnating distribution growth until the economy revives. But no signs of this so far. The REIT's stock price has dipped more than 18% since the first interest rate hike in March. It hit its 52-week low on October 11 and hasn't recovered much.

Now is a good time to buy the REIT and lock in an attractive 5.84% distribution yield. If the stock returns to its 200-day moving average of $16.8, that's a 12% appreciation from the current trading price. If you invest $2,000 in this REIT, you can earn $235 in capital appreciation + $117 in distributions. That's an investment income of $351, which could be exempt from capital gain tax if invested through the Tax-Free Savings Account (TFSA).

Investing the foolish way

These two stocks have a good chance of recovering when the market rebounds with an uptick in the economy. They could continue to fall throughout 2022, but all you need to do is hold patiently for the long-term. Such value stocks reward patience.

CATEGORY

1. Investing
2. Stocks for Beginners
3. Tech Stocks

TICKERS GLOBAL

1. TSX:CRT.UN (CT Real Estate Investment Trust)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)

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