



If I Could Only Buy 1 Stock Before 2023, This Would Be it

Description

The year is nearly over, and stocks are still on discount. Altogether, the S&P/TSX Index has lost 8% of its value year to date. The country's most valuable tech company lost 75% of its value over the same period. This environment is perfect for bargain hunters seeking valuable acquisitions.

This is why I'm spending the next few weeks buying more stocks. However, if there was only one stock I could buy before 2023, it would be **Constellation Software** ([TSX:CSU](#)). Here's why this [tech giant](#) deserves a closer look before we enter the new year.

Constellation's business plan

Constellation Software has a simple growth strategy: it acquires niche software companies that have recurring revenue and a sticky customer base. Every year, the company expands its portfolio to add more earning power. Over the past 30 years, it has completed over 500 acquisitions.

Successfully integrating these 500 new firms has helped the company deliver a 10,150% total return since 2006. That's a compound annual growth rate of 33%.

To sustain its momentum, the Constellation team needs to secure more deals at favourable terms over the next decade. Fortunately, the economic environment has improved in Constellation's favour recently. The tech sector is in the midst of a bitter bear market. Valuations have collapsed, which gives the team more opportunities to acquire high-quality targets.

The team has already deployed more capital in the first half of 2022 than in all of 2021. These new acquisitions could be fully integrated into the core business by 2023, which is when I expect Constellation's earnings to grow substantially.

Meanwhile, Constellation's valuation is more attractive than before.

Valuation

Constellation Software isn't immune to the market cycle. The stock has lost 20% of its value year to date, which is on par with many of its mega-cap tech peers. However, revenue and net income have been steadily expanding throughout the year, which is why the valuation multiples look more attractive now.

Constellation stock currently trades at an enterprise value (EV) to sales ratio of 4.3. For context, this ratio was around seven throughout the past two years. It's also trading at an EV-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) of 16.6 and a price-to-earnings ratio of 24.

Put simply, Constellation stock could be considered [cheaper](#) than its historical average. But if you consider its record-breaking pace of acquisitions and the potential for earnings growth in 2023 and beyond, it could look like a bargain.

That's why I'm adding more exposure to this exceptional stock before the new year.

Bottom line

Canadian stocks are still in a bear market. There could be more pain ahead. But some companies are starting to look attractive for long-term investors. In my opinion, Constellation Software looks like an excellent bargain at its current price. I'm adding more exposure before recent acquisitions are reflected in the company's income statement in 2023.

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