2 Canadian Tech Stocks That Are Better Buys Together

Description

Indeed, it's tough to be a tech investor these days. And though there is a bit of hope for such growth-focused investors, I'd argue it's wise to tread cautiously by only investing what you're willing to lose in the unprofitable growth companies that are off more than 75% from their highs.

Undoubtedly, it's tempting to chase growth. But chasing hot stocks could come with stiff penalties in the form of a fast and furious pullback. Regardless, certain names may be worth pursuing, as they begin to show signs of bottoming out.

In this piece, we'll look at two growth stocks that I think are great buys together. One name is a battered growth stock that's been heavily influenced by the move in rates, while the other has been a steady earnings grower likely to continue trending higher on its own footing.

Shopify

Shopify (TSX:SHOP) has not been easy to hold for Canadians who bought in at any point over the past year. It's been in free-fall mode for a long time, and any bounces have been short-lived. With the recent consumer price index numbers pointing to peak inflation, I think the worst is in the rearview. That said, Shopify still has a recession to grapple with, as it looks to keep its merchants happy with new innovations.

After a nearly 25% pop in just two days, Shopify stock went from dog to one of the hottest rebound plays in the market. Undoubtedly, Shopify has leaned out, with considerable layoffs conducted over the past quarter. Despite the cuts, the company is still poised to keep its innovative pace. In due time, recession and rate fears will pass, and the focus will be back to strong fundamentals and the enviable growth story.

Though I'm no fan of chasing stocks after upside spikes, I think Shopify is worth keeping on the radarin case there's a pullback. Should the stock retreat back to the $45 range, I'd be ready to pounce. For now, the stock is way too hot to handle. Though I think it's undervalued at just shy of nine times sales, recent momentum could easily reverse, as this hot market looks to cool again.

Constellation Software

Constellation Software (TSX:CSU) is a great profitable growth company to buy alongside Shopify. At just shy of $2,000 per share, Constellation trades at 65 times trailing earnings. Still expensive, but relative to its growth story, I view CSU stock as an intriguing value while it's down around 15% from its all-time high.

The company has created long-term value via acquisitions in the small-cap Canadian software universe. After such a contraction in tech, I'd argue Constellation has more gems it can pick up with its rock-solid balance sheet. With $759 million worth of cash on the balance sheet as of the September 2022 quarter, Constellation has a lot to make a splash while valuations are low across the board.

Bottom line

Shopify and Constellation stocks seem better bought together. Shopify is white hot, with a massive 1.64 beta (implying shares are more volatile than the TSX). Meanwhile, Constellation's 0.84 beta can help investors combat immense volatility in the tech scene. Both companies have long growth runways and top-notch managers, making them solid long-term bets.

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Date
2025/09/29
Date Created
2022/11/15
Author
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