1 TSX Stock That Could Crush the Market in the Long Run

Description

Being a contrarian is an excellent way to outperform the market. If you consistently take the safest, most well-understood bets, your performance will be on par with the market average. To beat the average, you need to swim upstream and make a bet on the most unloved sectors of the economy.

Right now, the most unloved sector is European tech. Here's why this sector deserves some attention, precisely because of its current weakness, and a stock pick that I believe could blow the TSX Index out of the water soon.

European tech

Tech stocks across North America have lost tremendous value this year. The sector is in the midst of a severe bear market. Rising interest rates and rampant inflation have made unprofitable companies too risky to bet on right now.

These issues are magnified in Europe. European tech startups and software companies never attracted the same level of capital as their American counterparts. Now, the continent faces an inflation and economic crisis that is much more severe than other parts of the world.

Together, these factors have pushed European tech valuations to historic lows. The **Stoxx Europe 600 Technology Index** trades at a price-to-earnings ratio of 18. That's significantly below its 10-year average. Analysts at **Morgan Stanley** believe the selloff is over and that European tech could be due for a strong rebound soon.

Canadian investors have a chance to bet on this sector through **Topicus** (TSXV:TOI).

Topicus

Toronto-based **Topicus.com** is a spinoff of enterprise software giant **Constellation Software**. Just like its parent company, Topicus is a tech conglomerate that attempts to grow via mergers and acquisitions. Unlike its parent, however, the company focuses exclusively on the European tech market.

Over the past year, the Topicus team has intensified its efforts to absorb software companies. In the first nine months of 2022, the company spent roughly €223 million (CA$300 million) in acquisitions. The company is taking advantage of lower valuations and distressed assets. These bolt-on purchases should be fully integrated by 2023, which is likely to expand the company's earning power.

Meanwhile, the company has lost nearly have its value. Topicus stock is down 48% from its all-time high last year. It trades at just 19-20 times operating cash flow per share according to my calculations. That's cheap for a tech stock with recurring cash flows and robust earnings.

Bottom line

Contrarian investors are much more likely to outperform the market. Undervalued stocks with better growth prospects deliver higher returns than traditional stock picks over time.

Right now, I believe European tech stocks are deeply undervalued. Canadian investors can bet on a rebound in this sector via Topicus — a conglomerate of niche European software companies. Keep an eye on this underappreciated opportunity in the market.

CATEGORY

1. Investing

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2. TSXV:TOI (Topicus.Com Inc.)

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