Better Buy: Shopify vs. Constellation Software Stock

Description

It's been a brutal year for tech stocks, with some of Canada's top growth plays shedding well more than 50% of their value. Though it's unclear when the bear market will end, the recent batch of CPI numbers suggests the U.S. Federal Reserve (the Fed) may have the means to pause on further rate hikes in the first quarter of 2023. Indeed, such a pause could help markets escape the claws of the bear.

In any case, investors shouldn't wait for the bear market to end before doing some buying. Undoubtedly, there's unease after 10-and-a-half months of pain. Though there have been weeks of relief, such bear bounces have proven short-lived, either due to a soured earnings report sending shockwaves through stocks or a hawkish comment from someone at the Fed.

In any case, the greatest rewards in markets tend to come to those who are brave enough to get in when nobody else will. In Canada, **Shopify** (TSX:SHOP) and **Constellation Software** (TSX:CSU) are two intriguing tech stocks that have taken a few steps back this year as a result of higher interest rates.

Constellation Software: Holding its own far better than most

Despite its high multiple (around 66.4 times trailing price-to-earnings at writing), Constellation Software stock has done a great job of holding its own. The $43 billion software kingpin is down just 13% from its all-time high. Exceptionally, Constellation has set itself out from the pack amid the tech wreck of 2022, thanks to its solid earnings growth profile and ability to scoop up bargains on the way down.

Over the past five years, CSU stock has surged more than 160%. Indisputably, Constellation is a proven market beater. With a 0.84 beta, the energy stock has outperformed the pack while exhibiting far less choppiness. With a lower beta and steady long-term gains, Constellation is the epitome of a smart-beta play.

A strong third-quarter earnings beat is in the books, so I'd look for CSU stock to keep marching higher, even if the Fed isn't finished with rate hikes this Spring. Constellation is well-equipped to navigate a turbulent macro climate better than most other tech firms lacking in cash flows.

Shopify: Fresh off a +80% drop

Shopify stock is finally trending higher after shedding more than 80% of its value from peak to trough. Undoubtedly, many young Canadians may have grown overweight the name, causing their portfolios to feel more turbulence than the TSX Index.

It's been a painful fall from the top of the TSX. Still, there are plenty of reasons to believe that the e-commerce darling can find its feet ahead of a recession. The firm recently reported a narrower-than-expected quarterly loss of $0.02 (versus estimates of $0.07 losses). Revenue rose 22% to $1.4 billion. Again, ahead of expectations. While the recent round of results are encouraging, nobody knows if it's a blip in a downward trend or the start of a turning point.

Provided the Fed pauses earlier next year, I think the odds are high that Shopify stock is closer to a bottom than a top. Though recession risks remain, I'm a fan of the 9.2 times price-to-sales (P/S) multiple. That's too cheap for a growth stock the caliber of Shopify!

Better buy: CSU or SHOP stock?

I like Shopify stock more at these levels. It's fallen too hard, and the recent results should give investors plenty of hope, as the tides look to turn on tech. Constellation is a great company, but it has limited upside at these levels versus the likes of a Shopify.

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joefrenette