



## 2 Tech Stocks to Buy Before a Rebound in 2023

### Description

This year has been rough for [technology stocks](#) as investors turned their backs on growth-oriented companies. The **TSX** produced a tech darling two years ago but the eventual lifting of COVID-19 restrictions and rising interest rates in 2022 saw **Shopify** tumble and fall.

Nevertheless, market analysts believe a [turnaround](#) is coming next year when rate hikes end. So it's a good time to consider taking positions in companies engaged in digital transformations or building vertical market software businesses. **Constellation Software Inc.** ([TSX:CSU](#)) and **Alithya Group Inc.** ([TSX:ALYA](#)) are two tech companies thriving in a digitizing world.

### The face of Canada's tech sector

Shopify took the stock market by storm when it rewarded investors with a 184.2% gain in 2020. Sadly, the erstwhile tech superstar is deep in the red with its 72.9% year-to-date loss. Some industry observers say Constellation Software is the true face of Canada's tech sector because it's more consistent and performs better.

Constellation Software's total return in 3.01 years is 60.3% compared to Shopify's 12.4%. Also, at \$2,061.93 per share (-11.97% year to date), the tech stock pays a modest 0.27% dividend. Market analysts covering CSU have a 12-month average price target of \$2,460.55, or a 19.3% return potential.

The \$43.7 billion company provides mission-critical software solutions and services to clients in the public and private sectors. There are six specific business lines under the Constellation Software umbrella, and the companies cover nearly all business sectors.

In Q3 2022, total revenue increased 32.8% to US\$1.7 million compared to Q3 2021. Net income rose 18.2% year over year to US\$143 million. On a year-to-date basis (nine months ended September 30, 2022), net income soared 1,517% to US\$388 million versus the same period last year.

According to management, business growth comes from acquiring, managing, and building vertical market software (VMS) businesses with macro tailwinds. The acquisition targets, mostly small software

companies with growth potential, generate significant cash flows. Expect Constellation to capitalize on the potential economic downturn in 2023 and pursue more acquisitions.

## Leader in digital transformation

Alithya's primary goal is to consolidate its industry position and become a trusted leader in digital transformation. This small-cap tech stock flies under the radar, but investors' interest should heighten following a record performance in Q2 fiscal 2023. The current share price is \$2.34 (-27.78% year-to-date), and market analysts forecast a potential 54% to 82% gain in one year.

The \$221.3 million consulting firm deploys leading-edge solutions, services, and skills to customers across various sectors. Its integrated or core offerings include business strategies, enterprise cloud solutions, application services, and data and analytics.

In the three months ended September 30, 2022, revenue and adjusted EBITDA grew 23% and 87% year over year to \$128.9 million and \$9.4 million, respectively. Net loss declined 84% to \$435 million versus Q2 fiscal 2022. Paul Raymond, President and CEO of Alithya, said the team delivered another record performance, notwithstanding a seasonally slower quarter.

Furthermore, management believes that most of Alithya's clients will accelerate their digital transformation projects despite the current global economic uncertainties.

## A resurgence in 2023

The tech stocks slump might end in 2023 but expect only some to experience a resurgence. Constellation Software and Alithya will likely outshine the pack because of their winning business models.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. TSX:ALYA (Alithya Group Inc.)
2. TSX:CSU (Constellation Software Inc.)

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