Better Buy: CGI Stock or Constellation Stock?

Description

Tech stocks haven't had a great go of it this year. Needless to say, the market downturn and worsening economy have created a poor situation for the industry. But within this sector, there are two software companies that really don't deserve the drop.

Constellation Software (TSX:CSU) and **CGI** (TSX:GIB.A) both saw shares drop during the year, and it looks to be only because of their relation to the tech sector. Both have a strong path to growth through buying up essential software companies on the cheap, and then reinvigorating them to create stellar income.

But when it comes to investing in CGI stock or Constellation stock, which is the better buy?

The case for Constellation stock

Constellation stock has been referred to as a "serial acquisition stock" by some analysts. This company has been growing through acquisitions for decades. And it's clear why. Constellation has proven that it can create solid income, bringing shares solidly into the four-digit range, and never dwindling.

During today's market downturn, analysts haven't changed their opinions of Constellation stock. During its recent third-quarter earnings report, analysts stated that they believe the company will continue to outperform the rest of the sector.

They are reassured by Constellation's clear path to profits through incredible diversification, high recurring revenue, and a strong balance sheet to boot. This could also mean there are more acquisitions in the near future with so much cash on hand.

Therefore, at these prices and with shares down 11% year to date, Constellation stock could be a solid buy. Though it's not cheap, with shares trading at 68.4 times earnings, and at $2,082 per share as of writing.

The case for CGI stock

Then, there's CGI stock, which is in a similar growth mode and has been around just as long. However, shares are *far* cheaper for this company. That being said, it hasn't experienced the drop that we've seen with Constellation stock.

CGI stock also reported earnings this month, with fourth-quarter profit coming in at $362.4 million, an improvement from $345.9 million the year before. Revenue also climbed 13.9% year over year, beating out earnings estimates of analysts.

Despite the macro headwinds of inflation and interest rates, analysts believe that CGI stock has proven it can remain strong. Further, the company has enough cash on hand to create more merger and acquisition opportunities. It, therefore, remains a resilient stock in the volatile tech sector.

Plus, shares are actually *up* 2% year to date, providing investors with some protection in their portfolio. It also trades at a far more affordable 18.8 times earnings, and at just $128 per share.

Bottom line

While both of these tech stocks are strong choices for your portfolio, it looks like CGI stock has more growth coming in the more immediate future. This tech stock has proven that it can take whatever the market throws at it head-on, and so investors are not as skittish about it compared to Constellation stock. So between the two, today I'd have to say CGI stock is the winner.

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2. TSX:GIB.A (CGI)

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Author
alegatewolfe