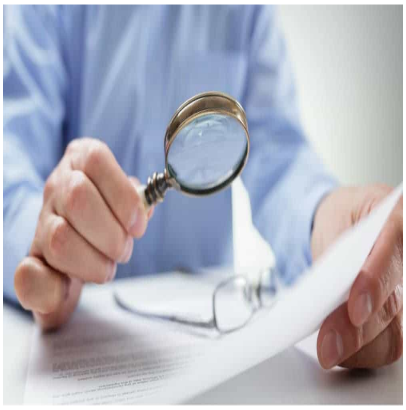

Stock Split Watch: Is Constellation Software Next?

Description

Constellation Software (TSX:CSU) is one of Canada's most expensive stocks. Trading for $2,098, just one share costs as much as a high-end laptop. That's not to say that CSU is "pricey" in the sense of valuation. It's actually a fair bit cheaper than stocks like **Shopify** in valuation terms. The shares do, however, cost a large amount of money.

Could Constellation Software be the next Canadian company to split its shares? Shopify did it earlier this year, and it's not crazy to think that CSU could do it too. The reason Shopify split its shares 10:1 was because management felt the high price was scaring away retail investors. CSU is even more expensive than SHOP (I mean on a pre-split basis), so that logic could apply to it as well. However, as you're about to see, there are many reasons why CSU's managers might prefer not to split the stock, so it's no guarantee that a split will happen.

Why CSU is a prime candidate for a stock split

CSU is a prime candidate for a stock split because its shares are rather expensive. Trading at nearly $2,100, they are out of reach to many retail investors. If you read many financial publications, you might have noticed that titles like "X stocks under $10" or "X stocks under $5" are quite popular. The reason is that many retail investors don't have thousands of dollars to spend on stocks. Others do have a few thousand in savings, but not enough that they can spend $2,000 on a stock and be diversified.

For example, if you have $5,000 in savings, and you invested in a Constellation share plus various other stocks, the CSU share would make up a little over 40% of your portfolio. That's a pretty heavy concentration.

Of course, there are brokers that let people buy and sell "fractional shares" (little pieces of shares), but not all brokers do. It doesn't seem likely that many people are choosing their broker on the basis of fractional share offerings alone. For investors without access to fractional shares, CSU stock might be more attractive after a split.

Why a stock split isn't guaranteed

Despite the fact that CSU looks similar to other stocks that were split, there is no guarantee that management will choose to do so. There are reasons for managers to prefer high stock prices over low ones. When a stock is very cheap, a lot of people can buy and sell it, which can create price volatility. Warren Buffett has consistently refused to split **Berkshire Hathaway** stock for this reason.

A split can create more buying, but that buying can lead to selling in the future. Also, managers may prefer to keep their stock price high in order to buy back shares at a price they find suitable. Stock splits make individual shares cheaper, but if they achieve the intended effect of triggering retail buying, they make the company as a whole more expensive. This is not a good thing from the perspective of a management team that intends to buy back stock.

That's not to say that Constellation's Mark Leonard is averse to doing a stock split. Based on my research, he hasn't commented on the topic one way or the other. There's just no indication that he plans on doing a split anytime soon.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Investing
2. Tech Stocks

Date
2025/07/17
Date Created
2022/12/06
Author
andrewbutton