These 2 Stocks Have Plenty of Room to Run

Description

> "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

According to *Quote Investigator*, Benjamin Graham and David Dodd first presented this insight in the 1934 book, *Security Analysis*, but Warren Buffett paraphrased and simplified the idea in an interview in 1973.

The wisdom in this quote still applies in today's financial markets. For example, last year, **Constellation Software** (TSX:CSU) stock was voted down to the $1,800-$1,900 level. At the time, stocks were generally sold off from higher inflation and rising interest rates.

Constellation Software is a technology company that has been run very well. It manages and builds vertical market software. Furthermore, management makes excellent capital-allocation decisions, such as making exceptional use of financial leverage and strategic acquisitions to boost growth. As proof, its five-year return on equity (ROE) is close to 47%!

Sure enough, the wonderful business hardly ever goes on sale. At the $1,800-$1,900 levels that it hit twice last year, the tech stock was trading at a blended price-to-earnings ratio (P/E) of about 29-31. That P/E appeared high, but not when you account for its track record of double-digit growth. For instance, in the past decade, it increased its adjusted earnings per share (EPS) at a compound annual growth rate (CAGR) of 25%.

In the last 10 and 20 years, CSU stock delivered returns at a CAGR of roughly 37%! Using the Rule of 72, stock investors could approximate that it took two years to double their money! The stock has rallied about 29% since 2022's low and reverted to a blended P/E of about 36. However, if the business continues to increase its EPS at a double-digit rate, it could still deliver CAGR returns of about 15% over the next decade, which would double investors' money every five years or so.

Another growth stock that has plenty of room to run

Although an entirely different business, **Alimentation Couche-Tard** (TSX:ATD) stock has similar traits as Constellation Software. For example, it also posts outsized ROE and long-term returns. Specifically, its five-year ROE is about 23%. The growth stock also delivered returns at a CAGR of north of 25% and 21%, respectively, in the last 10 and 20 years.

Couche-Tard has proven its ability to integrate its acquisitions that have supported its extraordinary long-term returns. The convenience store consolidator continues to see global acquisition and organic growth opportunities. Furthermore, it generates strong cash flows that has resulted in dividend growth at a CAGR of roughly 25% in the past decade.

Investor takeaway

The growth stocks of Constellation Software and Alimentation Couche-Tard have the potential to become more valuable over time with solid execution from management. Analysts believe they're trading at good valuations. Between the two, though, Couche-Tard trades at a bigger discount of about 14% at about $60 per share.

In the short run, driven by news, stocks go up and down. Market corrections can provide buying opportunities in. In the long run, if businesses execute well, the respective stocks will also become more valuable over time.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ATD (Alimentation Couche-Tard Inc.)
2. TSX:CSU (Constellation Software Inc.)

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