Is Converge Stock a Buy?

Description

The **TSX's** technology sector plunged into a bear market in 2022 following the substantial gains in 2021 (+18.3%) and 2020 (+80.3%). The sector, along with healthcare and real estate, dragged the Canadian stock market down to post a negative return (-8.6%) for the year.

Industry experts and economists said rising interest rates and inflationary pressures caused the sell-off in the growth-oriented sector. Fortunately, the Bank of Canada paused its rate hike cycle, and the policymakers will observe if eight increases are enough to bring inflation down significantly.

Meanwhile, the temporary pause could pave the way for a rebound in tech stocks. The sector is up 15.4% year to date as some constituents are gaining momentum. **Converge Technology Solutions** (TSX:CS) reported impressive preliminary financial results for 2022, up 7.4% year to date ($4.93 per share). So, is the tech stock a strong buy because of signs of an imminent breakout?

Business Overview

Converge Technology Solutions is a software-enabled IT & Cloud Solutions provider with 35 operating firms under one umbrella. These IT solutions companies help the parent company address or meet the unique business and technology requirements of clients in the public and private sectors.

The family ($1 billion market capitalization) of specialists in technology solutions is still growing globally. Other allied services and digital workplace offerings include IT portfolio management, consulting services, managed services, and cloud solutions. Customers across various industries avail of advanced analytics, application modernization, cloud platforms, cybersecurity, and digital infrastructure.

Financial highlights

The business is thriving based on preliminary, unaudited financial results for the fiscal year 2022. In the 12 months ended December 31, 2022, the net revenue and gross profit increased 67% and 59% to

$2.5 billion and $548.1 million versus fiscal 2021, respectively. In Q4 2022, the cash generated from operations rose 56% year over year to $28 million.

Converge CEO Shaun Maine said, “Our team delivered exceptional performance throughout all of fiscal 2022. We continued to see strong demand across every industry sector of the mid-market.” He adds, it’s an indication that more and more customers view Converge as a trusted and preferred technology partner, especially to meet analytics, cloud, and cyber needs.

Another highlight in the fourth quarter was a 56% jump in total bookings to more than $1 billion compared to the same quarter in 2021. Around 89% of Converge customers contracted or bought more than one solution. As of December 31, 2022, the bookings backlog rose 10.1% to $555.7 million versus year-end 2021. The increase was due to supply chain challenges.

Organic strength

According to management, Converge started strong in fiscal 2023 from an order and delivery standpoint, notwithstanding the macro and short-term supply chain headwinds. Maine said the integration of 19 acquisitions in the last two years should demonstrate the organic strength of the business.

Furthermore, global expansion should continue. The increase in Converge’s Global Credit Facility to $600 million strengthens its liquidity position. Maine adds, “We are well positioned to continue creating value for our shareholders through organic and inorganic growth and strategic capital deployment.”

Invest with caution

While market analysts forecast a return potential of 62.7% for Converge in one year, understand the risks and invest cautiously. The resumption of rate hikes could trigger a sell-off like in 2022.

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