Should Investors Obtain International Exposure With This Stock?

Description

A common mistake Canadian investors make is being heavily invested in Canadian equities. As of February 2017, Canada was the 22nd-largest economy in the world, and its performance is closely linked to the performance of financials, energy, and materials. Therefore, investors are limiting their portfolio's growth by only investing in equities from a country with such a narrow focus.

Many pension funds have as little as 7% Canadian equities in their portfolios; therefore, if some of the best fund managers in the world are limiting their exposure to Canada, it's probably in Foolish investors' best interests to do so as well.

Obviously, it's important to invest in what you know, which is why most Canadians invest primarily in Canadian equities. However, Canadians can still obtain international exposure from stocks traded on the TSX. **Descartes Systems Group Inc.** (TSX:DSG)(NASDAQ:DSGX) is a growing tech company with significant international exposure. Should investors be diversifying their portfolios with this stock?

Here's a quick look at the company.

Company overview

Descartes is in the business of supply chain management. Suppliers are continually being asked to deliver supplies quicker at lower prices and with greater flexibility. Descartes helps companies implement automated functions which allow companies to simplify complex business processes. Therefore, Descartes's technology allows its customers to increase their earning potential.

One of the most attractive features of Descartes is its global reach. Currently, over 93% of its revenue is generated outside Canada with 52% derived from the United States and 37% from Europe, the Middle East, and Africa. With only 7% of its revenue coming from Canada, the company's exposure to the Canadian market is in line with many pension managers' level of exposure.

In addition, the company’s innovative logistic solutions have been able to generate significant cash flows at an annual average rate of 24.5% over the past six years. Therefore, the combination of a weak Canadian dollar and strong inflows from foreign countries could result in larger returns for shareholders

Current valuation

Like most tech companies, investors will have to pay a premium for growth. The company is currently trading at a price-to-earnings ratio of 77, which is above its five-year average of 63. In addition, it’s trading at a price-to-book value of 4.2, which is significantly above the sector median of 2.3. Therefore, investors may want to refrain from overpaying for this stock at these levels.

Foolish bottom line

At the end of the day, investors need to be searching for opportunities outside Canada to diversify and grow their portfolios. Descartes has the potential to achieve this for investors; however, I believe they should refrain from buying it at these levels. This company is definitely on my shopping list, but I’ll be patiently waiting for the valuation to become more reasonable before buying its shares.

Stay Foolish, my friends,

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1. Editor's Choice

TICKERS GLOBAL

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