3 Canadian Tech Giants to Buy on a Dip

Description

The heavy weighting of financials and resources companies hides the value of technology investing for companies listed on the TSX index (more on this later).

Today I'd like to focus on some of the more actively traded technology companies because I think there are some solid stocks in the bunch. Here are three that have caught my eye.

1. Mobile technology: BlackBerry (TSX:BB,NASDAQ:BBRY)

BlackBerry isn't exactly hidden to investors, but it is turning around its business. Investors seem uncertain about the future of the company's new smartphone models and mobile operating system; volatility in the stock has remained elevated. Since the revamped BlackBerry 10 is in its infancy, the odds here favor investors with a longer time horizon, as new model releases and greater worldwide availability begin to support stronger sales — and a higher BlackBerry share price.

The company is scheduled to report first-quarter earnings on June 28. To dust off my crystal ball, I like the odds that BlackBerry posts a strong quarter, as stronger margins from the sale of its new device offset a decline in older BlackBerry 7 models. The company is advertising aggressively and offering promotions to encourage upgrades, but those deals aren't aggressive enough to hurt margins.

Next quarter's earnings report will include sales of the Q10 keyboard-based smartphone, which became available in Canada at the beginning of May. Mark Sue, an analyst at Royal Bank, thinks that BlackBerry could sell 11 million smartphones in 2013, which would support an $18 share price.

Since shares closed recently at around $14, few investors seem to believe that positive forecast — but those investors may be missing an opportunity. The Q10, Z10, and a higher-tier, premium A10 device still have the potential to surprise the most bearish investors. Initial television ads were effective in delivering the message that Blackberry 10 was a major product refresh. Future ads with the theme that BlackBerry is completely new could succeed in delivering the message that its smartphone is a viable smartphone option for consumers.

2. Software: Open Text (TSX:OTC)

Open Text makes corporate software that helps enterprises manage their content — an area called ECM for short. Recent results demonstrate solid growth from the company. In its most recent quarter, OpenText grew its revenue by 16% to US$338 million, while net income rose by 25% to US$74 million. Cash flow rose 21%.

After moving nowhere for nearly a year, shares broke out of a narrow range after OpenText's quarterly earnings report to close recently at $73.51, an all-time high.

Since the company's short float is at 14.1%, the 25% increase in shares in the last three months could mean even further gains — when bearish positions, or short selling, is high, shares often move up violently if the company exceeds market expectations, because short sellers need to cover their positions. If sentiment reverses, OpenText could sell off when the market as a whole turns south. A temporary dip could give investors who missed the run-up another chance to start a position.

OpenText grew market share in ECM by completing many acquisitions successfully over the past decade. These additions should help profit margins stay strong for the foreseeable future. The company expects adjusted net operating margins to be 26%-30%. License growth is also contributing to its steady sales, and the company is boosting revenue by investing in its sales force.

Manufacturing: Celestica (TSX:CLS)

In the electronics manufacturing space, **Celestica** shares are at a 52-week high. Investors bid shares of this $1.71 billion tech heavyweight higher in late April, after finishing a second straight quarter that was not as bad as what analysts expected. But that rally also makes the company less attractive right now.

Celestica also reported lower earnings, sales, and gross margins (non-IFRS). Celestica earned US$0.06 per share, compared to $0.20 per share last year. Gross margins dropped 30 basis points to 6.6%. Still, the company had $US 530 million in cash at the end of its first quarter.

Two things could support a higher Celestica share price. First, the company could improve operating margins in the second half of this year if it wins new business opportunities. Right now, Celestica thinks it will have operating margins [NA1] of 2.5% in the current (second) quarter (non-IFRS), coming in at the midpoint of its guidance.

Second, Celestica is betting that the semiconductor capital segment of its business will see higher demand, and planning for higher production volumes in response. The company already invested in infrastructure in previous quarters to expand its manufacturing capacity, which had a short-term negative impact on its overall results. But the gross margins it sacrificed in the past could pay off in future quarters, as demand improves in the communications and in the enterprise segment.

The Foolish Bottom Line

Even though BlackBerry is an obvious titan of the Canadian technology sector, it is not the only worthy investment idea. Celestica and Open Text give investors exposure to manufacturing and software, respectively. Both companies are at yearly highs. A pullback is possible if market players decide to close their positions early to book double-digit gains in 2013. If that happens, these companies would be good technology stock ideas to consider.

For more on why the TSX is such a flawed index, and what you can do about it, **click here** to receive our special **FREE** report "**5 Stocks to Replace Your Canadian Index Fund**".

The original version of this post was created by Fool contributor Chris Lau.

Fool contributor Chris Lau has no positions in any companies mentioned at this time. The Motley Fool has no position in any stocks mentioned at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
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