



Buffett Followers: Open Text Corp. Is a Dividend-Growth King in the Making

Description

Open Text Corp. (TSX:OTC)([NASDAQ:OTEX](#)) is a rare technology gem with explosive earnings growth that many investors overlook. The company develops and sells enterprise information management (EIM) systems for corporations, government agencies, and professional service firms. The company has provided steady returns to investors over the last few years thanks to earnings-growth initiatives. Last year the company returned an impressive 26.77%.

Can the momentum continue into 2017?

Open Text Corp. had a fantastic fiscal Q1 2017. Its revenues increased 14% year over year on a constant currency basis to \$492 million. The company continues to grow each year by innovating as well as making strategic acquisitions to unlock long-term value for shareholders. Open Text Corp. recently finished its acquisition of the Enterprise Content Division from **Dell Technologies**. This acquisition is expected to help the company obtain a double-digit revenue growth for the upcoming fiscal year.

Open Text Corp. has gone under the radar of most Canadian investors, and for no good reason, especially considering that the company shares a lot of characteristics of a typical Warren Buffett forever stock. The company has very high margins thanks to the nature of its industry. The software business commands some of the highest margins out there, and the company has been steadily increasing its margins over the last decade. I believe this trend will continue as the demand for software development as well as EIM systems picks up in the years ahead.

The company has also been growing its earnings by a ridiculous amount over the last decade thanks to growth initiatives. The earnings have been very predictable with an upward trajectory. It's very likely that the same trend will happen going forward, and the stock will slowly rise because of the company's ability to grow both earnings and revenue on a consistent basis.

Open Text Corp. pays a very nice dividend yield of 1.39%, which is quite high considering the huge amount of capital gains the stock has been returning to shareholders over the last few years. This dividend is very safe with a payout ratio below 36%. Investors in the stock should treat this dividend as

a bonus considering the company is still growing very fast.

The dividend has also increased each year since the company first initiated a dividend back in 2013. We can expect the dividend to be raised each year in sync with the company's earnings. I believe the stock could become known as a dividend-growth king many years down the road.

Open Text Corp. is a fantastic business that should have the attention of every Canadian tech investor. The stock trades at a very reasonable forward 13.9 price-to-earnings multiple and offers deep value for investors who seek growth and a fair dividend.

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