Open Text Corp.: Deep Value Hiding in Plain Sight?

Description

Open Text Corp. (TSX:OTEX)(NASDAQ:OTEX) is a Canadian developer of enterprise information management (EIM) software. Open Text's software is used to manage content or unstructured data for commercial and government organizations. The stock soared over 35% this past year, but it still trades at an incredibly low price-to-earnings multiple of 7.6.

Open Text is one Canada's underrated, premier tech stocks, but is the current valuation too good to be true? Or is it an incredible steal right now?

Although the company is attractively valued, the stock could be ripe for a pullback if the company reports anything less than perfection in its Q3 2017 earnings report, which is scheduled to be released today. If a sell-off does occur, I think it's nothing more than a huge buying opportunity for long-term investors looking to add some tech to their portfolios.

The stock is riding a considerable amount of momentum that is expected to continue this year. Many hedge funds have taken notice as they've upped their stakes by a significant amount over the last few quarters. Legato Capital Management, Beutel Goodman & Co. Ltd., and FMR LLC have been loading up on the stock.

The company is growing its revenues and earnings by leaps and bounds each year, both organically and through strategic acquisitions. The management team's incredible ability to drive revenue growth is a huge reason to own shares for the long term.

The software business commands high margins, and Open Text Corp. has seen its margins increase by a small amount over the last decade. It's quite possible we may see margins improve further over the next decade as the company continues to strengthen its position in the EIM market.

One metric that Warren Buffett looks at when determining the value of a stock is by taking a look at a company's earnings growth. Open Text Corp. is an earnings-growth king which has seen increased earnings every year over the past decade.

The dividend has also been increased by a considerable amount each year since the company first started paying one a few years ago. Sure, a 1.3% dividend yield may not seem like much, but I believe the company is well positioned to become a dividend-growth king over the next decade.

With a 7.6 price-to-earnings multiple, Open Text Corp. should be receiving a lot more attention from the average Canadian investor. It is one of the few great Canadian tech plays on the TSX, after all.

Although the stock has had a huge upward run, I still think there's a ton of upside for investors with a time horizon of five years or more. I would buy a small chunk now and after the earnings report.

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