A Fast-Growing Dividend Stock for Your Portfolio

Description

Despite dipping 5.3% on the Toronto Stock Exchange on Tuesday, **Open Text Corp.** (TSX:OTEX)(NASDAQ:OTEX) shares have appreciated 28% in the last year, which doubled the return of the S&P TSX index which appreciated nearly 14% in the same period. So, obviously, Open Text is doing something right.

The business

Open Text provides software for its more than 100,000 customers around the world to manage enterprise information. The Enterprise Management Information segment is an attractive market; it has greater than $35 billion in annual customer spending and continues to grow. The company is a consolidator in the space and has made 56 acquisitions so far.

Strong profitability

Between fiscal 2010 and 2016, Open Text maintained its returns on equity between 11% and 15%, which indicates management is a good capital allocator as the business grows partly from strategic acquisitions.

In the same period, the company also maintained operating margins of at least 12%. Its operating margin in the trailing 12 months was 18.5%.

Dividend and dividend growth

Due to the success the company has been experiencing, management was confident enough to initiate a dividend in 2013. Since then, Open Text's dividend has increased by 76%, equating to almost 15.2% at an annualized rate. That's a faster dividend-growth rate than many other common dividend stocks such as our quality banks and stable telecoms.

Open Text offers a U.S. dollar-denominated dividend, which is considered an eligible dividend for Canadian shareholders who can opt to receive the dividend in the U.S. or Canadian currency by communicating with their brokerages.

enterprise information management

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At the recent quotation of roughly $45 per share, Open Text yields about 1.6% after its second-quarter dividend hike to US$0.132 per share.

Why did it dip?

Open Text's third-quarter results came out. The company missed both earnings and revenues estimates. However, note that its earnings per share and revenues actually increased by 12.5% and 34.6%, respectively, compared to Q3 2016.

Valuation

The shares trade at a price-to-earnings ratio of about 16.2, which is a decent value for estimated double-digit growth potential. In fact, the analyst at **Bank of Nova Scotia** has a US$40 12-month price target on the stock, which implies the shares could appreciate about 22% from the current level.

Investor takeaway

Barring a market-wide decline, Open Text shares should head higher over the next few years. The company will continue to look for acquisitions to help grow its business.

As well, it expects to grow its recurring revenue from about 84% to more than 90% and improve its adjusted operating margin by about 4% to the 34-38% range by 2020. If you're looking for above-average growth and a fast-growing dividend, consider shares of Open Text today and on any further dips.

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