Could This Tech Stock Be a Defensive and Dependable Income Play With Growth Potential?

Description

The technology sector is generally considered a growth sector in most strategic investment decisions. However, investors do find some exceptional tech stocks with both value and growth characteristics that offer high dividend yields, defensive properties, and growth potential.

Value stocks are popular for their high dividend yields, high dividend payout ratios, low but stable revenue growth rates, and sometimes low earnings margins, while growth stocks offer high growth prospects, have high price-to-earnings ratios, and usually low or zero dividends yields.

Computer Modelling Group Ltd. (TSX:CMG) exhibits some interesting defensive and value characteristics, while it also offers some growth potential.

CMG is a software firm, established 40 years ago, which engages in the development and supply of reservoir simulation technologies which it licences to the oil and gas industry.

CMG also provides professional services such as support, training, consulting, and contract research activities to oil firms, which accords the company critical practical-learning opportunities and enables the firm to further enhance its product offerings.

The company’s client book has grown to over 600 oil and gas and consulting firms today.

Investors may be drawn to CMG not only for its stable dividend income, but also for its defensive business profile.

Income play

CMG pays a flat $0.1 quarterly dividend, which is good for a reliable 4% annual dividend yield at the current $10 share price.

The company has paid a regular quarterly dividend consistently since 2005, and the payout was increased from $0.005 over the years to $0.1 in January 2014.

The payout has not been increased since 2014, however; the business stagnated as the company's client base struggled to survive the oil price plunge.

However, profitability has remained intact, and the dividend has been sustained, even during difficult times.

There are signs of future business growth as the oil price outlook improves for 2017 going forward and oil companies increase their spending budgets.

Defensive play

CMG's business has managed to thrive, even during the recently chaotic low oil price environment. Even though revenues faced a slight decline in late 2015 and 2016, the company successfully reduced operating costs by 7% while maintaining research and development expenditures.

The company also maintained its 46% operating margins and 30% net profit margins. Such consistent execution, even in a depressed market, implies that the business is resilient.

Most noteworthy, approximately 80% of CMG's software licence revenues may be recurring, and the company continues to be profitable despite the ongoing economic challenges facing the oil and gas industry

Future growth prospects

As the oil industry strives to adapt to low oil prices by increasing operating efficiencies, demand for CMG's services may increase in the near term.

Depressed oil prices compel oil producers to rely more on simulation technologies as they seek to lower exploration, development, and operating costs.

If oil prices manage to improve in 2017, corporate budgets in the oil industry may be increased too, leading to more business potential for CMG.

Investor takeaway

Investing in CMG could be a rewarding long-term strategic bet.

One outstanding factor for CMG is its capital structure. The company has no debt on its balance sheet, so it has no interest costs or debt covenants to worry about.

Investors enjoy a 4% dividend yield, and the business may offer some capital gains as growth is realized in the long term. However, investors need to consider the recently deteriorated dividend-to-cash flow ratios.

CATEGORY

1. Dividend Stocks

2. Investing
3. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CMG (Computer Modelling Group Ltd.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Tags

1. Editor's Choice

Date
2025/07/20
Date Created
2017/07/06
Author
brianparadza