

## Dividend-Growth Investors: Here's an Unappreciated Canadian Gem That's Undervalued

### Description

**Open Text Corporation** ([TSX:OTEX](#))([NASDAQ:OTEX](#)) is down about 10% from its 52-week high and appears to be a cheap stock for investors looking for long-term capital appreciation and superior dividend growth. The company recently made a deal to buy U.S.-based forensic security company Guidance Software for US\$222 million, which is expected to complement the company's current portfolio of software assets.

### About the company

For those who are unfamiliar with Open Text, it's a developer and seller of enterprise information management (EIM) software applications with over 100,000 clients from across the globe. The enterprise management information market is fast growing, and Open Text has a front-row seat. The company has been extremely active with acquisitions over the last few years as it looks to consolidate its industry.

Most of the company's growth is via acquisitions. The company has made over 57 acquisitions, including Convisint, DellEMC's enterprise content management segment, Actuate Corporation, Daegis, GXS Inc., and Vignette Corporation, just to name a few.

### How does Guidance Software fit in?

Guidance Software's EnCase forensic platform is used to collect data from a wide range of devices and provides a comprehensive investigation through its extensive reports on findings. Going forward, Open Text is going to integrate Guidance's platforms into its own to beef up its already impressive portfolio of offerings.

### Strong fundamentals

The management team is incredibly efficient at unlocking long-term value for shareholders through M&A activity as demonstrated by the company's continuously improving return on equity numbers over the past decade. Open Text has an impressive ROE of 39.38% over the last 12 months which has jumped a substantial amount from its 11.1% ROE in 2010.

The company's operating margin and earnings per share have been consistently moving upward over the last decade as well, which is a great sign for long-term investors who like predictability.

### An underrated dividend-growth king

Open Text has a modest 1.53% dividend yield, but it's worth noting that this dividend has increased at a ~15% annualized rate since the company first started paying one in 2013. That's some serious dividend growth, and further growth of this magnitude can be expected going forward as the company

grows through more acquisitions.

## Valuation

Shares currently trade at a 7.92 price-to-earnings multiple and a 2.5 price-to-book multiple, both of which are considerably lower than the company's five-year historical average multiples of 27.2 and 3.3, respectively. Open Text is attractively valued with consistently improving long-term fundamentals.

If you're an investor looking for an underrated gem to buy on weakness, then Open Text may be the future dividend-growth king that you're looking for.

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## Date

2025/07/27

## Date Created

2017/07/27

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