Why Open Text Corp. Is up Over 3%

Description

Open Text Corp. (TSX:OTEX)(NASDAQ:OTEX), one of the world's leading providers of enterprise information management (EIM) solutions, announced its fourth-quarter earnings results after the market closed yesterday, and its stock has responded by rising over 3% in early trading.

Let's take a closer look at the quarterly results and the fundamentals of its stock to determine if we should be long-term buyers today.

A very strong quarter of double-digit growth

Here's a quick breakdown of 10 of the most notable statistics from Open Text's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	**Q4 2017**	**Q4 2016**	**Change**
Cloud services and subscription revenues	US$183.64 million	US$156.62 million	17.2%
Customer support revenues	US$287.8 million	US$192.97 million	49.1%
Licensing revenue	US$123.5 million	US$86.13 million	43.4%
Professional services and other revenues	US$68.62 million	US$48.08 million	42.7%
Total revenues	US$663.55 million	US$483.80 million	37.2%
Adjusted operating income	US$219.93 million	US$158.1 million	39.1%
Adjusted operating margin	33.1%	32.7%	40 basis points
Adjusted EBITDA	$237.0 million	$173.09 million	36.9%
Adjusted net income	US$159.17	US$119.75	32.9%

Adjusted earnings per share (EPS)	US$0.60	US$0.45	33.3%

Should you buy Open Text today?

It was a fantastic quarter overall for Open Text, and it capped off a very strong year for the company, in which its revenues increased 25.6% to US$2.29 billion, its adjusted EBITDA increased 18% to US$792.5 million, and its adjusted EPS increased 14.1% to US$2.02. Its fourth-quarter and full-year results also beat or met analysts' expectations, which called for adjusted EPS of US$0.58 on revenue of US$662.2 million and adjusted EPS of US$2.00 on revenue of US$2.29 billion, respectively.

With all of this being said, I think the market has reacted correctly by sending Open Text's stock higher today, and I think it still represents a great investment opportunity for the long term for three primary reasons.

First, it's one of the best growth stocks in its industry. Open Text grew its revenues by 25.6% and its adjusted EPS by 14.1% in fiscal 2017, and analysts expect strong growth going forward, with current estimates calling for revenue growth of 16.3% and adjusted EPS growth of 22.8% in fiscal 2018, and revenue growth of 5.6% and adjusted EPS growth of 9.7% in fiscal 2019.

Second, it's undervalued based on its growth. Open Text's stock currently trades at just 17.1 times fiscal 2017's adjusted EPS of US$2.02, only 14 times the consensus analyst estimated of US$2.48 for fiscal 2018, and a mere 12.7 times the consensus analyst estimate of US$2.72 for fiscal 2019, all of which are inexpensive given its aforementioned earnings-growth rates and its estimated 15.9% long-term growth rate.

Third, it's a great dividend-growth stock. Open Text currently pays a quarterly dividend of US$0.132 per share, equal to US$0.528 per share annually, which gives it a 1.5% yield. A 1.5% yield is far from high, but it's very important to note that the company's 14.8% dividend hike in May has it on pace for fiscal 2018 to mark the fifth consecutive year in which it has raised its annual dividend payment, and I think its very strong financial performance will allow this streak to continue into the 2020s.

With all of the information provided above in mind, I think Foolish investors should consider initiating long-term positions in Open Text today.

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