



This Tech Stock Was Just Added to the S&P/TSX 60 Index

Description

After trading in a sideways channel and consolidating for about a year, **Open Text Corp.** ([TSX:OTEX](#))([NASDAQ:OTEX](#)) stock looks to be ready to go higher. In the last two trading days of 2017, the stock appreciated more than 8% to an all-time high on the NASDAQ.

A reasonable value

The stock trades at a very reasonable valuation. At under \$44 per share, Open Text trades at a price-to-earnings ratio of under 16, while the analyst consensus estimates the company will grow its earnings per share by about 18% per year for the next three to five years.

Some investors would actually consider Open Text to be a bargain — paying a multiple of 16 for an ~18% rate of growth. However, the company is trading at a premium multiple to its long-term normal multiple of about 14.

Additionally, the company has a non-investment grade S&P credit rating of BB+. This will probably limit the company's multiple expansion possibilities, despite it having the potential to grow at a fast rate.



How the company grows

One key way Open Text has been growing is through acquisitions. Because the technology sector changes rapidly, it makes sense for Open Text to buy companies that expand its offerings or boost its market positions.

So far, the company has completed 58 acquisitions, and it has been very successful in the integrations. Since fiscal 2010, Open Text's return on equity and return on assets have been greater than 11.1% and 5.4%, respectively, every year, while maintaining a reasonable financial leverage of 1.8 to 2.6.

In the last fiscal year, Open Text's profitability was outstanding. It posted return on equity and return on assets of 37.2% and 16.2%, respectively, while having an average financial leverage of 2.1.

In the past decade, the company increased its revenue and earnings per share at a compound annual growth rate of ~14% and ~18%, respectively. This translated a \$10,000 investment to over \$45,000 for an annualized rate of return of 16.9% over the last 10 years.

The business

Open Text is a global leader in enterprise information management software and cloud services. In the last fiscal year, it generated revenue of ~US\$2.3 billion; 41% of the sales were outside the Americas. It has key operations in Canada, the U.S., Brazil, the U.K., Germany, France, India, Philippines, Australia, and Japan.

Investor takeaway

Open Text was just added to the **S&P/TSX 60 Index**, which is an index of the 60 most valued companies in Canada listed on the Toronto Stock Exchange. This milestone might have been what caused the recent surge in the [technology stock](#). Investors interested in this space should begin scaling in the [growth stock](#), and especially so on meaningful dips.

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