



Why Open Text Corp. Is Soaring Over 11%

Description

Open Text Corp. ([TSX:OTEX](#))([NASDAQ:OTEX](#)), one of the world's leading providers of enterprise information management (EIM) solutions, is watching its stock soar over 11% in early trading following its fiscal 2018 second-quarter earnings release after the market closed yesterday. Let's break down the quarterly results and the fundamentals of its stock to determine if we should consider buying into this rally, or if we should wait for it to subside.

The results that ignited the rally

Here's a quick breakdown of 10 of the most notable statistics from Open Text's three-month period ended December 31, 2017, compared with the same period in 2016:

Metric	Q2 2018	Q2 2017	Change
Cloud services and subscription revenues	US\$208.1 million	US\$175.1 million	18.9%
Customer support revenues	US\$308.1 million	\$219.7 million	40.3%
Licensing revenue	US\$135.2 million	US\$97.8 million	38.3%
Professional services and other revenues	US\$83.0 million	US\$50.2 million	65.2%
Total revenues	US\$734.4 million	US\$542.7 million	35.3%
Non-GAAP-based operating income	US\$267.9 million	US\$184.5 million	45.2%
Non-GAAP-based operating margin	36.5%	34.0%	250 basis points
Adjusted EBITDA	US\$290.1 million	US\$199.8 million	45.2%
Non-GAAP-based diluted earnings per share (EPS)	US\$0.76	US\$0.54	40.7%

Operating cash flows	US\$166.6 million	US\$107.0 million	55.7%
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What should you do now?

It was a phenomenal quarter overall for Open Text, and it capped off a fantastic first half of the year for the company, in which its total revenue increased 32.9% to US\$1.38 billion, and its non-GAAP-based diluted EPS increased 34% to US\$1.30. With these very strong results in mind, I think the market has responded correctly by sending its stock higher, and I think it's still a great long-term buy for two fundamental reasons.

First, it's undervalued based on its growth. Even after the pop in its stock, Open Text trades at just 15.4 times fiscal 2018's estimated EPS of US\$2.48 and only 14.2 times fiscal 2019's estimated EPS of US\$2.70, both of which are very inexpensive given its current earnings-growth rate of over 30% and its estimated 16% long-term earnings-growth rate; these multiples are also very inexpensive compared with its five-year average price-to-earnings multiple of 26.4.

Second, it's a dividend-growth star. Open Text currently pays a quarterly dividend of US\$0.132 per share, representing US\$0.528 per share annually, giving it a 1.4% yield. A 1.4% yield isn't very high, but it's very important to note that the company's [14.8% dividend hike](#) in May 2017 has positioned it for fiscal 2018 to mark the fifth consecutive year in which it has raised its annual dividend payment, and I think its very strong growth of operating cash flow will allow this streak to continue for decades.

Including reinvested dividends, Open Text's stock has now returned over 90% since I first recommended it on [June 18, 2015](#), and I think it is still a strong buy today, so take a closer look and consider initiating a long-term position with the intention of adding to that position on any weakness in the weeks ahead.

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