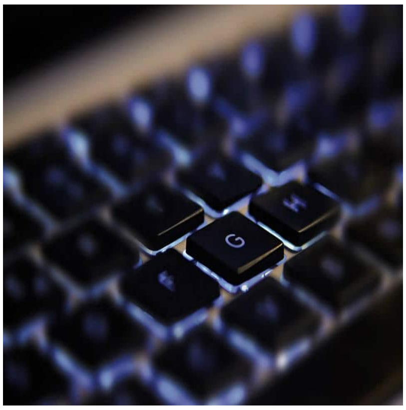

1 Canadian Tech Stock to Add to Your Dividend Portfolio

Description

One of the key tenets of investing is diversification. Investors can diversify by geography, asset class, currency, and sector. When investing in Canada, it can be difficult to find stocks in particular sectors. This becomes compounded if, like me, you prefer to have stocks that pay you a dividend while you wait for capital appreciation.

While Canada does have a number of excellent dividend stocks, I find the tech sector a particularly difficult place to find dividend-paying companies that offer growth as well. Fortunately, Canada is beginning to have more tech companies go public, but dividends can still be few and far between.

Open Text Corp. (TSX:OTEX)(NASDAQ:OTEX) is demonstrating capital and dividend growth. The company has been paying a growing dividend for around five years and has been raising it by double digits, including the most recent 15% increase. While the dividend, at current prices, is not large at around 1.5%, the dividend yield is the result of capital growth. Given the history of the company and the recent financial results, the dividend will probably continue to grow in the future.

As a fast-growing tech company, Open Text has been growing quickly. Over the past 20 years, Open Text has achieved a respectable 1,500% total return. Its financial returns support this growth, as was evident in the most recent quarter. Revenues were up 16% as of its Q3 2018 report. Operating cash flows increased by 73%, which bodes well for future dividend increases, as the company aims to have the payout ratio be 20% of operating cash flow.

The company is involved in a number of different spaces, namely analytics, security, and many other types of business solutions focused on improving customer and employee experiences. Recurring revenues from these businesses were up over 18% year over year and provide around 76% of total revenues. The stability provided by these recurring revenues provides an excellent backdrop for future dividend increases and debt repayments.

The company is focused on growing the business organically and through acquisitions, all the while building up consistent, recurring revenue. Open Text has completed 15 acquisitions over the past six years, all of which have been accretive, adding significantly to shareholder value and company productivity.

While it does generate a lot of growth, mergers and acquisitions are probably the one area of the company where I am the most concerned. It is not that I'm concerned about any particular acquisition, but rather the amount of long-term debt the company has added through its mergers. It will be important in the future to keep track of Open Text's debt levels and observe the company's continued ability to service the repayments.

In addition to the company's productivity and growth, Open Text offers geographic diversification to the Canadian investor. The company provides services and generates recurring revenues from numerous companies around the world. While approximately 50% of its revenue comes from the United States, a significant and growing amount is coming from Europe, the Middle East, Africa (32%), and Asia (10%).

Open Text is an excellent Canadian company. It provides dividend investors with diversification, an increasing dividend, and it's positioned in a growing sector. While the acquisitions it has made have put more debt on the balance sheet, the company's focus on recurring revenues allow for clear visibility for debt repayment and future acquisitions. Open Text is definitely a dividend stock to consider.

CATEGORY

1. Dividend Stocks
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