This Tech Company Is a Rare Triple Threat

Description

Did you buy the dip in **OpenText Corp**. (TSX:OTEX)(NASDAQ:OTEX)? I first brought Open Text to your attention a few months ago. At the time, the company experienced a negative price swing post earnings. OpenText missed analysts' expectations and its stock price plunged 7% on the day of earnings.

What has happened since? OpenText rebounded and is up 14%, touching new 52-week highs. The overreaction to the earnings miss provided investors with a great entry point.

Are you worried you missed out? Don't be. The company is still cheap when compared to its future growth prospects.

Growth through acquisition

OpenText has a successful growth through acquisition model. In late February, the company purchased Hightail, "A leading cloud service provider for file sharing and creative collaboration with approximately 5.5 million global customers." Since 2010, OpenText has made 28 acquisitions!

Not surprisingly, revenues have grown by a compound annual growth rate of (CAGR) 28% over the past 10 years, which is explosive growth over a significant period. The best part is that growth isn't slowing down. Over the past year, the company has grown revenues by another 26.5%. At this pace, the company is one of the best growth stories on the TSX.

Earnings growth is equally as impressive. It has a 5-year CAGR of 52%, and analysts expect the company to post annual earnings per share growth of 18% through 2019.

Undervalued

Despite touching 52-week highs, the company still offers significant value. At first glance, its price-to-earnings (P/E) of 40.8 might scare investors off. Remember, this is a high growth company and you should focus on forward valuations. On a forward basis, the company is trading at a much more reasonable 18.1 times earnings.

Likewise, OpenText's P/E to growth (PEG) ratio is only 0.95. A PEG under one signifies that the company's stock price is not keeping up with expected earnings growth. It is thus considered undervalued.

There are 14 analysts covering the company, and all but one have the company rated a buy. The average analyst one-year price target is $56.54, which implies 14% upside from today's price.

Growing dividend

If growth and value weren't enough, OpenText is also a Canadian Dividend Aristocrat. Having raised dividends for six consecutive years, the company is also an attractive income play. Don't be turned off by its low 1.65% yield. The company has one of the highest dividend growth rates and is among Canada's best dividend growth companies. Over the past five years, the company has grown dividends by an average of 15% annually.

The company has a healthy 50% payout ratio and dividends account for only 23% of free cash flow.

Triple threat

Stocks are usually categorized in one of three baskets: growth, income and value. OpenText is a rare triple threat. It fits into any one of these types and is a great investment for your TFSA and RRSP.

Don't worry. Even if you missed the dip, OpenText still has plenty of room to run.

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Author
mlitalien