

Here's a Different Tech Stock With Plenty of Potential

Description

Every so often a stock comes along that poses a massive opportunity for investors, and in many cases that opportunity goes unnoticed by investors. [Tech companies](#) in particular are often misunderstood by investors who can't see the the potential of what could be an incredible growth stock.

One such investment is **OpenText Corporation** ([TSX:OTEX](#))([NASDAQ:OTEX](#)).

OpenText is a Waterloo-based tech company with offices in 30 countries worldwide and over 10,000 employees. The company provides a suite of Enterprise Information Management (EIM) products to businesses across several broad segments such as Analytics, Security, Process Automation, Enterprise Content Management, and others. On the service side, OpenText also provides a suite of services to clients, including consulting, information outsourcing, and translation services.

What makes OpenText a good investment?

There are three key reasons why investors should consider an investment in OpenText.

First, OpenText has a very aggressive stance towards expansion, which is primarily done through acquisitions. By example, over the course of the past three years, OpenText has made over a half a dozen acquisitions. Looking further back over the course of the past decade reveals over two dozen acquisitions completed by the company, many of which have added or enriched OpenText's suite of EIM products.

A great example of this is the acquisition of Hightail Inc., which was completed earlier this year. Hightail, formerly known as YouSendit, is known in the industry for as a file sharing and creative collaboration solution. The cloud-solution software has over five million users around the world, which includes both individual consumers, paid subscribers, and enterprise clients.

Many of OpenText's acquisitions are complementary to the core EIM offering of the company. This is an important factor to take into consideration, as OpenText is not just acquiring other products, but also integrating them into the products that the company already offers. During the High Tail announcement, OpenText CEO and CTO Mark J. Barrenechea made references to "...integrating Hightail into OpenText Content Suite, Documentum, Core and Media Management..."

In other words, OpenText is growing rapidly and is impressively integrating each acquisition into its core product/service portfolio.

Second, let's look at the results. OpenText is set to report on the fourth quarter of fiscal 2018 next month, but until then we can look at performance in the most recent available quarter. In that most recent quarter, OpenText reported revenue of \$685.9 million, which reflected a 15.6% increase over the same period last year. Adjusted EBITDA also came in strong, with \$227.2 million reported by the company in the quarter, surpassing the \$189.1 million reported in the same quarter last year by 20.2%.

The most impressive takeaway from the quarter was attributed to both the company's operating cash flow, which surged 73% year-over-year to \$271 million, and OpenText's annual recurring revenue (ARR) of \$521 million, which was up 18% over the same period last year.

The key takeaway here is that OpenText's rapid growth is not hindering its bottom line. If anything, that growth is providing more favourable results.

This leads into another valid point around value.

OpenText's current stock price, which at near \$50 is flirting with its 52-week high. Year-to-date the stock is up 10%, and looking back over a longer period shows the stock up an incredible 17% over the course of the previous 12-month period, and up over 25% in the past two years. Despite that growth and a P/E of 58.90, which many may consider to be high, there is still a massive opportunity for additional growth and for that stock to continue its upward trajectory.

Finally, there's the dividend. OpenText offers a 1.66% yield, which, while not one of the [highest yields on the market](#), is a respectable amount and one that has been subject to hikes by the company as recently as earlier this year.

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