Does This Canadian Tech Company Deserve a Place in Your Portfolio?

Description

The search for companies with excellent balance sheets often leads to companies operating in the technology space these days. Often, this is due to the fact that technology companies operate with lower capital expenditure than that of traditional companies. As their businesses are less capital intensive and their operations have relatively low overhead, technology companies can generate significant amounts of free cash.

Tecsys Inc. (TSX:TCS) is one of these low debt technology companies at which it is worthwhile to take a look. The company has a significant amount of cash on its books and very little debt to speak of. It also hasn't issued an excessive number of shares over time, so its shares are not being continuously diluted. The company not only has an excellent balance sheet, but also pays out a dividend of about 1.17% at today's prices. The company has been slowly raising this dividend over time, maintaining a good payout ratio of approximately 50% of earnings over time.

Tecsys is primarily a provider of supply chain management solutions primarily for healthcare, although it also has relationships with companies in other industries as well, including **Canon Inc.** The company's revenue increased 2% year-over-year as of Q4 2018. Its contractual bookings for its supply chain services rose 33%, which should have a positive impact on revenues and earnings going forward.

The biggest concern was the decrease in earnings, with earnings per share reduced from $0.39 a share in Q4 2017 to $0.13 in the same period of 2018. However, earnings were still positive, revenues were still increasing, and bookings are looking positive. At this point, investors will have to look to the upcoming earnings to determine whether this is a one-time blip or a continuing trend.

The biggest risk to software-based companies such as Tecsys is often not their balance sheet, but their ability to generate recurring revenue and build relationships with their customers. These companies need to provide services that are better than their competitors and retain long-term contracts so that their customers do not move on to another service provider. Other competitors such as **Kinaxis Inc.** (TSX:KXS) also compete in the space, so companies need to find a niche. Barriers to entry are relatively low, so software-based companies must be competitive.

Tecsys has thus far been able to build its customer base. According to its Q4 report, the company recently locked in one of the largest healthcare contracts in its history, and its increased bookings should continue to build its revenue stream. Additionally, the company's dividend, while not large, is a bonus for shareholders. It also operates in the healthcare sector, which is a sector for which there will always be a need.

It is always wise to consider whether an investment is better than alternatives. The sector has a few comparable technology-based supply-management companies that also operate with very little debt, giving investors choice as to which to add to their portfolio. In the case of Tecsys, the company appears interesting and worth keeping an eye on, although there is no rush to immediately enter a position.

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