1 Canadian FAANG-Breaker for Your Tech Stock Wish List

Description

As overheads mount on tariff woes and consumer demand starts to show some signs of contraction, companies will be looking to reduce waste and lower their overheads wherever they can. With this in mind, intelligent supply chain management seems to be a growth sector that will be fed by economic contraction – a true contrarian opportunity if ever there was one!

Investors looking for a good contrary tech pick should look no further than that darling of the DOCKS stocks, **OpenText** (TSX:OTEX)(NYSE:OTEX). OpenText is a big player in the world of software and digital solutions, and is arguably nothing like a FAANG stock, (the majority of which are frivolous data vultures).

By contrast, OpenText makes stuff that is eminently useful. It deals in content services; processing software to help companies digitize and automate their services, plus file transferring solutions; it has partnered with **Microsoft**, **Oracle**, and **Deloitte**, to name just a few big companies.

Is this popular tech stock a buy today?

It's not often you see an undervalued tech stock, especially not one of this calibre, and yet here we are with OpenText currently trading at a deep discount of 37% compared to its future cash flow value.

OpenText's P/E of 42.8 times earnings isn't anywhere near the TSX average (which is sitting at 16.8 times earnings), though it handily beats the Canadian software industry average, currently way up at 56.2 times earnings. A P/B ratio of 2.8 times book likewise is good value for the industry – about midway between the market at 1.8 times book and the software industry at 4 times book.

A PEG ratio of 2.7 times growth means that you're not getting the best value in terms of outlook, though a 15.6% expected annual growth in earnings and dividend yield of 1.56% go some way to round out a good quality stock today.

Contrast this with the likes of **Netflix** (NASDAQ:NFLX) for instance, a stock that currently has some of the most horrible market fundamentals known to man. A darling of the FAANG brigade, Netflix is overvalued by almost 9.5 times its future cash flow value, and boasts a P/E ratio of 141.3 times earnings, PEG of 3.8 times growth and P/B of 31.2 times book. Yes, Netflix is selling at more than thirty times its book value!

A 37.2% expected annual growth in earnings explains overvaluation to some extent, but this stock is clearly far too overheated to buy anytime soon. Netflix also carries a lot of debt: 185.5% of its total value, to be precise, and doesn't even pay dividends. FAANGS but no thanks.

The bottom line

Consider OpenText as an alternative to the FAANGs if you like the growth afforded by tech stocks and want to invest in a domestic brand with a lot of reach. As a stock, OpenText still has enough upside to keep capital gains investors interested, while paying enough of a dividend to qualify it for passive income investors looking for a few extra quid. It's not as exciting as a FAANG stock, but then, excitement and long-term investing are not often a good mix anyway!

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