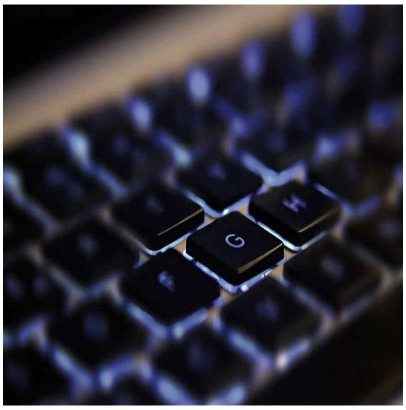

Can This Canadian Tech Stock Survive Last Week's Market Bloodbath?

Description

As per the gloomy predictions rattling around the investment community all summer, worries about rising interest rates in the U.S. finally caused investors that side of the border to flee the stock markets last week, taking their hard-earned dollars with them. The hardest-hit sector was arguably tech, as the Dow rapidly lost 800 points, while the Nasdaq, bloated with big-name tech tickers, took heavy losses as investors fled from overvaluation.

With players like **Apple** and **Amazon** seeing their worst losses in two-and-a-half years, and the TSX and European markets immediately catching a cold after the U.S. markets' spluttering sneeze, should Canadian investors attempt to buy up the deals or admit that the epic bull run may finally be coming to an end?

Never mind the FAANGs; try the DOCKS

I mentioned ditching dairy and getting into Canadian tech last week; this week, it seems the advice was timely, as long-overpriced American tech stocks took a battering, leaving their northern cousins the better-valued alternatives. In fact, I've been talking up Canadian tech since the early summer, and it looks as though the sector may actually be positioning itself as one of the future growth areas of domestic investment.

I've also been talking about my tech stock wish list favourite, **Open Text** (TSX:OTEX)(NASDAQ:OTEX), for some time now. Does it really rival the likes of **Facebook**? Yes and no: while Open Text is indeed a tech stock, not unlike the American FAANGs, it operates in a very different sphere from the aforementioned social media giant. For one thing, it's immune to the kind of PR disasters and wobbly U.S. market maneuvers that are making the FAANGs so undesirable right now.

Open Text's competitors include such illustrious names as **Microsoft**, Apple, and **Oracle**; but just how sturdy is this stock? Is it one to hold for the long term? A market cap of $9 billion says yes, though, of course, there is far more data to look into than sheer size and peer group.

A return to growth for Open Text

A one-year past earnings contraction by 76.4% compares rather poorly with the Canadian software industry's average for the same 12 months of 13.5% and is quite a drop after its own industry-beating five-year average growth record of 22.9%. However, a 15.6% expected annual growth over the next couple of years should see earnings pick up again.

Overvalued by more than 50% of its future cash flow value, Open Text is actually less attractively valued than Facebook today (though we all know why that is), with a P/E of 38.2 times earnings. While this ratio is obviously quite high compared with the TSX index itself, it's actually pretty good for the Canadian software industry. To go back to FAANGs, it looks an especially good ratio when you realize that Microsoft has a P/E of 50.9 times earnings.

A dividend yield of 1.75% is something of a surprise for a tech stock, though a pleasant one for sure. A high debt level of 70.5% of net worth may be off-putting for the risk-conscious, though. Also be aware that there has been a fairly high level of inside selling in the last 12-month period, suggesting a lack of confidence in the company, or perhaps some knowledge to which the general public is not privy. This level of inside selling is surprisingly similar to that of Microsoft for the same period.

The bottom line

Of course, there are other Canadian tech stocks to choose from, such as **BlackBerry**, **Shopify**, and **Descartes Systems Group**. However, what makes Open Text interesting is the ubiquity of its systems and the popularity of its stock. With a small dividend yield that may increase as time goes on, Open Text might even be suitable for padding out a TFSA or RRSP — unusual for a tech stock. It's well placed to survive a market bloodbath, but wait a while for that value to come down if you plan to buy.

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