It’s Time to Buy the Dip in This High-Growth Tech Stock

Description

OpenText (TSX:OTEX)(NASDAQ:OTEX) stock spooked the market in after-hours trading by falling +7% on Halloween. Just by looking at the price action, it’s impossible to tell if it’s because of the fiscal Q1 results that it just released, its announcement of an acquisition, or a mix of both.

OTEX data by YCharts. It’s not uncommon for OpenText to have big dips in its stock price.

It’s not like OpenText hasn’t had big dips before around earnings time. So, investors should not be swayed from the price action. Let’s take a look at the recent results and what the acquisition is about.

Fiscal 2019 Q1 results

When reporting the strong fiscal 2018 Q4, management warned about a seasonally weak quarter that will follow. The fiscal Q4 witnessed about 13% growth in revenue and annual recurring revenue, and diluted earnings-per-share growth of 20% year over year. Indeed, the fiscal Q1 results were much weaker.

Compared to the same period in 2017, annual recurring revenue increased by 6% to US$520 million, adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) grew 11.7% to US$246 million with an EBITDA margin of 37%, and operating cash flow climbed 155% to US$171 million.

The GAAP diluted earnings per share actually declined by a penny or 7% to US$0.13 due partly to increased borrowing costs and a marginal increase in the number of outstanding shares.

The acquisition

OpenText announced that it was going to acquire Liaison Technologies, which will enhance OpenText's product offerings.

Liaison provides cloud-based integration and data management solutions to help +4,000 global enterprise customers with using a data-centric approach for their businesses. Management believes Liaison's offerings will immediately complement OpenText's GXS, EasyLink, Covisint and ANX platforms.

The tech company will be buying Liaison for about US$310 million in an all-cash transaction, after which the company will still have about US$478 million of cash and cash equivalents on its balance sheet. It expects the transaction to close within three months.

Investor takeaway

OpenText is a market leader in the enterprise information management space and has been skillfully making accretive acquisitions over the years to widen its moat. The Liaison acquisition and integration should be no different.

It has delivered market-beating returns in the long run. Based on the stock price of $44.44 per share at the market close on Wednesday, OpenText was already trading at a nice value at a P/E multiple of about 13.2 for estimated earnings-per-share growth of about 12% per year for the next three to five years.

OpenText is a strong buy for growth and dividend growth. Although it offers a relatively small yield of about 1.8%, it has increased its dividend per share by about 15% per year since fiscal 2015.

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