This Tech Stock Is a Top Pick Among Analysts

Description

For the first time in years, the tech industry is littered with stocks that provide good value. This high-flying sector has been plagued by over valuation and when the markets get jittery, these types of stocks suffer the most. After touching a 52-week high in early September, **OpenText** (TSX:OTEX)(NASDAQ:OTEX) dropped almost 20% in the months following. Although it has since recovered slightly, it still provides excellent value.

A top pick among analysts

With 16 analysts keeping tabs on the company, OpenText is well covered. Of those analysts, 14 rate the company a "buy," while the other two have a hold and sell rating on the stock. The average one-year price target is $60.56, which implies 33% upside from today's share price. The most bearish analyst has a one-year price target of $46.43, which is still ahead of today's share price.

Analysts expect the company to grow its earnings by 11% on average over the next few years. Given that the company has either beat or met analysts' estimates in five of the past six quarters, these estimates are achievable.

A top growth and dividend stock

Despite the 2018 downturn, OpenText still eeked out a 2% gain on the year. Over the past five years, its share price has grown at a compound annual growth rate of 13.1%. Earnings and sales growth have been equally as impressive, with CAGRs of 47.92% and 14.6% over the same period.

The company is a serial acquirer, averaging approximately four acquisitions a year since 2013. In 2018, the company closed on its Hightail and Liaison Technologies acquisitions. Liaison closed in mid-December and will be expected to be accretive to earnings beginning in the third quarter. This $310 million deal expands the company's capabilities within life sciences and healthcare and takes OpenText, one step closer to being achieving $1 billion in cloud revenue.

OpenText is also one of the few TSX-listed tech stocks that pays a growing dividend. The company is a Canadian Dividend Aristocrat with a six-year dividend growth streak. Over the past five years, it has average annual dividend growth of approximately 15%, which is one of the highest rates on the Aristocrat list.

A top industry value stock

OpenText is currently trading a cheap price of 12.47 times forward earnings. This is the cheapest in the industry and well below the industry average of 23.7. Its forward P/E to growth (PEG) is 1.1, which indicates that the company is trading at decent valuations. It is neither overvalued nor undervalued and below its five-year average of 1.7. Likewise, it's trading below its five-year historical price-to-book, price-to-sales, and price-to-cash flows. The company hasn't been this cheap since 2014.

Foolish takeaway

OpenText is one of the cheapest tech stocks on the TSX Index. It provides investors with double-digit growth and one of the best dividend growth rates in the country. It also happens to be one of the less volatile stocks in the industry. Analysts are very bullish on the stock — as am I.

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