



## 1 Cybersecurity Stock That Deserves Attention

### Description

In an increasingly digital world, the threat to privacy and data security is greater than ever. There seems to be a massive data breach every few months or so, and the attacks are only intensifying, as attackers get more sophisticated and the tools they use get cheaper.

In fact, the second-largest data breach in history happened only two months ago. Hotel chain **Marriott International** disclosed last November that hackers had stolen personal information from 500 million of its guests.

Bear in mind that Marriott is a \$37 billion multinational giant, while most of the companies across the world are small- and medium-sized enterprises. If big companies fall prey to such attacks so frequently, what chance does the little guy have?

The growing concerns about this vulnerability have unleashed a torrent of demand for cybersecurity tools and data protection software. One of the Canadian companies in this space is **Absolute Software** (TSX:ABT).

Vancouver-based Absolute provides software solutions that protect devices, data, applications and users against theft or attack. Over the past decade, the company has managed to create a network of over 12,000 corporate clients from across the world.

The company's products focus on the "endpoint," or user devices like laptops, smartphones, and tablets. According to data from IDC, 70% of security breaches occur at this endpoint, which means average users don't have the tools they need to protect their devices and data.

Absolute's solution allows corporate IT managers to monitor and manage all the connected devices used by employees. This allows organizations of any size to prevent attacks and comply with data protection regulations regardless of how remote their workforce is.

The Absolute team claims that its patented Absolute Persistence™ software is embedded in the firmware of products developed by 26 manufacturers, including Dell, HP, and Lenovo. As of January 2019, the company has over 120 patents and over seven million active endpoints on its network.

While the total cybersecurity market could be worth \$128 billion by 2020, Absolute's niche is estimated to be worth \$1.1 billion in 2018. Meanwhile, the company's market capitalization is a little over \$324 million.

At its current market price of \$8, the dividend yield is a little over 4%. However, earnings per share are only \$0.11, which means the company pays more in dividends than it earns in net income. Paying out from reserves is rarely a good look for a dividend-paying stock.

The company has US\$34.6 million in cash and no debt, which means it can keep paying this dividend for the next 3.5 years before running out of cash. I think the management believes earnings will grow sufficiently enough to cover this dividend rate by that time.

Considering the fact that cash flow from operating activities was US\$14.5 million over the *past* 12 months, 95% of revenue is recurring, and the company's growth rate is around 5% a year, this short-term payout ratio may be justified.

Altogether, Absolute is an interesting business in an expanding market with an overly aggressive dividend payout. It might be worth the risk for some tech-driven, income-seeking investors.

## CATEGORY

1. Investing
2. Tech Stocks

## TICKERS GLOBAL

1. TSX:ABST (Absolute Software)

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