A Dividend-Paying Cybersecurity Stock Poised for Growth

Description

It seems there's a new high-profile cyberattack every other month these days. From multinational corporations losing data on millions of clients to social media giants using developer tools to track teenagers on their mobile devices, the threat of bad actors in our increasingly digital world persists.

The most recent breach of Jeff Bezos's privacy should put this threat in sharp focus for everyone. After all, if the billionaire founder of the world's second-largest technology company can't secure his private messages, what hope does the average business leader have?

That's precisely the sort of threat **Absolute Software** (TSX:ABT) helps mitigate. Vancouver-based Absolute Software helps companies secure their "end point" devices. In other words, the service protects data stored on employee smartphones, laptops, tablets, and desktops. With these devices get increasingly capable, more of them have entered the modern workplace. Most employees prefer to use their personal device.

According to experts, most cyberattacks are focused on these endpoints, which makes Absolute's solution particularly valuable. Over 12,000 corporate clients rely on Absolute's platform to secure their work devices and employee data, potentially mitigating millions in losses to malware, ransomware, data theft, and compliance issues.

Absolute's moat is based on three factors: its ongoing relationship with original equipment manufacturers (OEMs), its vast network of resellers and partners, and its growing pool of intellectual property.

Since 2005, the company's patented Persistence platform has been embedded into devices manufactured by industry leaders like **Microsoft**, **Dell**, **HP**, **Lenovo**, and **Toshiba**. Meanwhile, its global network of distribution partners brings more corporate clients onto the platform every year.

These contracts with corporations and OEMs provide stability and visibility to Absolute's near-term revenues, as is typical for the software sector. It has 95% of the revenue recurring, and the gross margins could be as high as 85%, according to the company's January investor presentation. This steady stream of cash allows the company to offer a healthy dividend yield of nearly 3.5%, while

expanding its portfolio of patents.

Over the past five years, there's been a massive overhaul in the company's leadership structure and commercial strategy. The founder was replaced by industry veteran Christy Wyatt last year, while the company has shifted focus away from physical devices to a cloud-based security management solution.

This new business model is not only more lucrative and efficient; it's also more aligned with where the cybersecurity market is heading.

Currently worth just over $365 million, the stock trades at 30 times adjusted earnings before interest, taxes, depreciation, and amortization. That, in my opinion, is reasonable when you consider the new sales trajectory and growth prospects.

Absolute Software is a fairly valued stock with interesting growth prospects that's flying under the radar. It may never dominate the global cyber security industry, which could be worth as much as $128 billion by 2020, but every new corporate client and OEM partner adds to the company's robust base of recurring revenue.

With a new leadership team in place, I believe 2019 could be a turning point for Absolute's prospects.

Bottom line

Businesses of all sizes will eventually have to consider their network security and data protection policies. Security providers like Absolute Software should be on every growth investor's watch list.

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