# This 6.7% Dividend Stock Combines Oil and Tech for Steady Profits

## Description

Across North America, the largest publicly traded companies are either technology firms or energy conglomerates. Drilling for oil and working with software has been tremendously lucrative over the past few decades. And, for nearly four of those decades, a Calgary-based mid-cap company has been combining the search for oil and the need for specialized software to create a money-making engine.



**Computer Modelling Group** (TSX:CMG) is focused on what it calls reservoir simulation software research and development. In other words, CMG's solutions allow companies to create simulations of their oil wells, collect data and make strategic decisions based on automated analysis.

According to the company's website, these reservoir simulation tools are currently deployed by 617 oil and gas clients and consulting firms, spread across 61 countries. CMG is a leader in a niche market.

To sustain its lead, the company has committed to deploying one-fifth of its annual revenue in research and development (R&D). More than half of the company's employees have either a master's degree or higher, and work in the R&D department. Technical innovation, it seems, is a core focus for this software provider.

This model has proven to be handsomely lucrative. The company generated $24.1 million in operating cash flow over the past 12 months, indicating an operating margin of 38% and return on equity of approximately 35%. CMG has virtually no debt on the book, $45.6 million in cash, and pays out slightly more than its net earnings in dividends to shareholders.

However, the revenue has been sliding over the past few years. A downturn in the oil market, which started in 2014, has been detrimental for some of CMG's clients. Consequently, annual sales are down over 15% between 2015 and 2018. Meanwhile, the stock has plunged from $14.4 to $6.04 over the same period.

Unlike other software providers, it doesn't seem like CMG can simply bolster growth by acquiring smaller companies in its niche. The niche is so small and tightly concentrated that it's fair to assume CMG has already hit market saturation.

A sudden spike in the price of oil could make the market more lucrative, making drilling and oil exploration more viable for a broader set of players, which will ultimately help CMG grow.

However, even if the oil price remains stable, CMG's services and technical innovations will still be required. New products and innovative tools being developed in the R&D department could help the company bolster sales, widen the margin, and retain long-term clients.

In any case, CMG has enough of cash and earning capacity to keep its current rate of dividend steady. This seems like an underappreciated, high-dividend star.

**Bottom line**

CMG's solid customer base and focus on research and development are the key pillars of its sturdy dividend. However, it's the biggest player in an acutely concentrated niche, which means the company needs to fuel growth internally and hope for stable oil prices.

For investors with a bit of insight into the long-term trend of global oil exploration and drilling, CMG is a promising income stock.

**CATEGORY**

1. Tech Stocks



**TICKERS GLOBAL**

1. TSX:CMG (Computer Modelling Group Ltd.)

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