4 Stable Tech Stocks That Deserve Attention

Description

Technology is a notoriously volatile industry. Companies that seem like invincible juggernauts today might disappear altogether within a few decades. The sector is fertile ground for sudden wealth creation and immense growth, but not really ideal for investors seeking stability or longevity.

However, some companies buck the trend. Smaller technology companies that focus on specific niche sectors have managed to secure their business with an economic moat that could endure decades of change and disruption. Here's a closer look at what I consider to be Canada's four most stable and reliable tech stocks.

Open Text (TSX:OTEX)(NASDAQ:OTEX)

Enterprise software is a particularly lucrative sector of the technology industry. Companies rely on these (often expensive) software packages for critical processes, and once the integration is complete, switching to another provider isn't feasible.

This leads to high margins and recurring income for players like Open Text, which is one of the largest players in the space. The success of the business model is reflected by the company's dividend history. Open Text currently provides a 1.56% dividend yield and has returned US$550 million to shareholders since its first dividend in 2013.

Constellation Software ([TSX:CSU](TSX:CSU))

What's better than one enterprise software company that dominates a niche? That would be a portfolio of hundreds of such small software providers. Toronto-based Constellation Software is the kind of company that would have been created if Warren Buffett focused exclusively on technology.

Founder Mark Leonard has been collecting niche software companies since 1995. The portfolio now includes 300 stellar businesses that generate immense cash flow. Investors who bought the stock in 2006, when it was first listed, have experienced a 38% annually compounded return since then.

The stock is also up 29% since I first wrote about it in November last year.

Absolute Software (TSX:ABT)

In an increasingly digital world, personal information and business data is constantly exposed to bad actors. It seems likely that the demand for security software will grow exponentially as we get more connected.

Canada's leader in this space is a company that designs endpoint security software. In other words, it creates tools that protect laptops, smartphones, and tablets from the most common cyber attacks. Absolute's business is built on its network of 12,000 corporate clients.

Gross margins and recurring revenue rates are as high as 85% and 95%, respectively, which allows the company to provide shareholders with a 3.58% dividend yield with confidence.

Kinaxis (TSX:KXS)

This supply chain management planning software provider may be more richly valued than the others on this list, but it has a similar base of enterprise clients with long-term contracts that promise recurring revenue.

Despite the trade wars and emerging protectionist policies across the world, global trade is unlikely to retreat in the near future. This means the demand for Kinaxis's software solutions is unlikely to subside.

According to the latest investor presentation, Kinaxis has more than 80% visibility of 12-month forward revenues, greater than 100% retention rates, and contracts that last between two and five years on average. While the company has little over 100 clients right now, its potential market could be wide enough to accommodate 5,000 clients.

Foolish takeaway

Stable tech stocks like the ones on this list provide investors a rare balance of high growth and predictable cash flow. Investors should take notice.

CATEGORY

1. Investing
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TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)

2. TSX:ABST (Absolute Software)
3. TSX:CSU (Constellation Software Inc.)
4. TSX:KXS (Kinaxis Inc.)
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