



5 Stocks With High Recurring Income

Description

Consistency is the key to great investing. When it comes to long-term returns, what's more important than potential growth or groundbreaking innovation is the predictability of earnings and the stability of profits?

A company with long-term visibility of earnings can make serious investments in its business, raise capital based on tangible predictions, and allocate cash more confidently. With this in mind, investors should seek out companies with business models based on recurring revenue and customer retention.

Here are the top five stocks with high recurring income, hefty margins, and impressive customer retention ratios:

Absolute Software (TSX:ABT)

The endpoint security and monitoring software provider has an extensive network of original equipment manufacturers who integrate the company's solutions with their hardware. The firm managed to generate US\$24.4 million in the second quarter of 2019. US\$23.4 million, which is 95.9% of the total quarterly revenue, was classified as "commercial recurring."

In fact, more than 95% of revenue has been recurring for the past few years. This year, management expects cash flow from operations to reach 10% and 14% of annual revenue. This robust outlook allows the company to pay a hefty dividend to shareholders — with the forward dividend yield currently standing at 3.6%.

Kinaxis ([TSX:KXS](#))

Kinaxis ([TSX:KXS](#)) offers specialized cloud-based, software-as-a-service (SaaS) solutions for supply chain planning. This makes the company an integral part of the international trade ecosystem, allowing it to sign long-term contracts with mega corporations worldwide.

In 2018, the company generated US\$155 million in revenue, 78% of which was subscription-based. Combined with its 26% EBITDA margin and \$200 million cash balance, the company has enough

stability to assure investors steady expansion and capital appreciation for years to come.

Descartes ([TSX:DSG](#))([NASDAQ:DSGX](#))

Logistics management software provider **Descartes** ([TSX:DSG](#))([NASDAQ:DSGX](#)) has a similar business model to Kinaxis with a differentiated clientele. Over 1,600 ground carriers, 90 airlines, 30 ocean carriers, 900 freight forwarders and hundreds of manufacturers, retailers, distributors, private fleet owners and regulatory agencies rely on this company's solutions every day.

During fiscal 2019, the firm generated US\$275 million in revenue, 88% of which was derived from services which are highly recurring. Descartes also makes recurring revenue from its licensing business, which contributed 2% of the total annual sales last year.

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#))

Everyone's favourite technology company **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is built on a solid base of recurring revenue derived from its expanding network of online sellers. In its latest quarter, the company reported \$44.20 million in monthly recurring revenue (MRR). This implies that nearly 45% of total annual revenue is recurring. Given the size of the e-commerce market, Shopify is a [potential millionaire-maker](#).

Open Text ([TSX:OTEX](#))([NASDAQ:OTEX](#))

Open Text ([TSX:OTEX](#))([NASDAQ:OTEX](#)) refers to itself as The Information Company. The good thing about information is that it's needed on a recurring basis. The tech giant's Enterprise Information Management (EIM) solutions are deployed by some of the largest companies in the world.

This expanding base of enterprise customers helps the firm generate over US\$2 billion in annual recurring revenue, 75% of which is total annual sales.

Bottom line

A solid base of recurring revenue allows companies to make long-term decisions and improves visibility for investors. The five stocks listed here have incredible track records of sustaining and growing their recurring revenue streams. They probably deserve a prime spot on your watch list.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NASDAQ:OTEX (Open Text Corporation)
3. NYSE:SHOP (Shopify Inc.)

4. TSX:ABST (Absolute Software)
5. TSX:DSG (The Descartes Systems Group Inc)
6. TSX:KXS (Kinaxis Inc.)
7. TSX:OTEX (Open Text Corporation)
8. TSX:SHOP (Shopify Inc.)

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