TFSA Investors: 2 Canadian “Cash Cow” Tech Stocks to Buy Now

Description

The earlier you start investing in your TFSA, the better. Taking advantage of tax-sheltered returns and compounding returns sooner rather than later will only work in your favour, as the more years you have under your belt, the greater the opportunity for long-term wealth creation.

The tech sector has certainly been one of the highlights of the market in the last many years. With artificial intelligence growing at tremendous rates, increasing adoption of technology in all areas of business and in an increasing number of sectors, tech stocks have been true long-term growth stocks that have secular growth tailwinds to propel them forward.

For those of you who would like greater exposure in your TFSA to this lucrative sector, consider the following two cash cow tech stocks. These companies have proven themselves to be leaders in their niche areas and leaders in employing capital, generating solid returns, and generating strong and increasing levels of cash flow.

CGI Group

With a strong history of growth and shareholder value creation, **CGI Group** (TSX:GIB.A)(NYSE:GIB) is a Canadian cash cow that remains a solid long-term buying opportunity for your TFSA.

Even after a 171% five-year return, and even though CGI stock has steadily risen from $10 to current levels of over $100 for a 900% increase over the last 10 years, big upside remains for this rising tech star.

CGI Group stock remains a key holding in the Canadian tech space for its solid cash flow generating business, its position as a consolidator, and its long-term growth trajectory going forward.

In the last five years, this $25 billion company has grown its revenues by 9.5% to $11.5 billion, and its free cash flow has grown from $458 million in 2013 to more than $1.1 billion in 2018. That’s a CAGR of 19%!

And while there is no dividend to speak of, that's okay, because this growth company is hard at work generating value by investing in consolidating the information technology and consulting industry and doing so successfully.

The company's goal remains growth, with a goal to double in size over the next five to seven years. As in the past, CGI plans to do this through acquisitions and organic growth. Small, tuck-in acquisitions are constantly evaluated and transacted upon, and a bigger, transformative acquisition seems to be closer than ever, with the company waiting for the right time for maximum value creation.

Open Text

Open Text (TSX:OTEX)(NASDAQ:OTEX) is not necessarily the tech stock we think about when we think of Canadian cash cow tech stocks. But this company is, in fact, a cash cow — one that also pays a dividend (1.7% dividend yield).

This tech stock has grown steadily since 2009 from under $10 to over $54 currently.

This $14 billion tech company is growing rapidly in the cloud business, with two recent cloud-based acquisitions strengthening its position, all while pounding out enviable levels of cash flow. Since 2014, free cash flow has grown 61% to 2018 levels of $605 million.

And free cash flow is expected to ramp up even more in the coming years, as recent acquisitions and synergies hit the bottom line.

Trading at a price-to-cash flow multiple below its peers, Open Text is clearly undervalued amid its strengthening position in the software industry and strengthening financials.

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1. Investing
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3. TSX:GIB.A (CGI)
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