This 1 Stock Is All You Need to Retire Wealthy

Description

The Canadian stock market is not tech heavy. Technology stocks account for just 6% of the overall Canadian market. There are few household tech names that investors can bank on. **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is one such stock. This company has been a winner ever since its initial public offer back in 1998.

Open Text has survived two major recessions in this period. OTEX lost over 60% during the dot-com bust in 2000 and declined close to 20% in the 2008 downturn. The stock managed to recover quickly on both occasions. Open Text has returned 875% in the last 12 years, easily outperforming the broader indices.

Is slowing revenue growth a concern?

Open Text managed to grow revenue at an annual rate of 15% between fiscal 2015 and 2018 (year ended in June). However, in 2019, the company's revenue growth slumped to 1.9% to $2.87 billion. After adjusting for currency fluctuations, Open Text sales rose by 3.8% in 2019.

Fourth-quarter revenue, in fact, fell close to 1% to $747.2 million and earnings per share were flat at $0.72. Investors panicked after Open Text's tepid results, sending the stock lower by 11% since the start of this month. But OTEX management is confident about long-term growth.

In the fourth quarter, Open Text bagged 26 contracts exceeding an average value of $1 million, up from 20 such contracts in the third quarter. The company's cloud segment continues to drive sales, as demand for products remains robust across financial, consumer goods, technology, and public sector verticals.

Open Text is banking on its partnerships with Google and **SAP** to expand its customer base. The company is also looking to increase subscription revenue in its high-growth cloud segment. A greater amount of subscription sales will result in a stable stream of recurring revenue and insulates companies in times of an economic downturn.

Open Text has strong fundamentals

Similar to **Constellation Software**, Open Text has looked at acquisitions to drive revenue growth. It strategically acquires companies with a high return on equity. OTEX has a cash balance of $765.2 million and an operating cash flow of $852.4 million. It can continue to acquire companies and gain traction in several business segments.

OTEX has increased operating cash flow by six times in the last 12 years. OTEX's cash balance allows the company to pay dividends, which is rare for tech companies. It has a dividend yield of 1.9% and has increased dividend payments at an annual rate of 15% in the last three years.

The verdict

Open Text provides enterprise information management services. Enterprises all over the world continue to bank on cloud software offerings and digital transformation services. This makes Open Text immune to trade wars and currency fluctuations. Sure, product demand and technology spending will be sluggish in an economic downturn, but this will be offset by the company's increasing focus on subscription sales.

Open Text has a total addressable market of $40 billion and has enough growth drivers. Its profit margins remain strong and are expected to improve in the coming quarters. Analysts expect OTEX's earnings to grow at an annual rate of 11.5% in the next five years. Open Text is trading at a lower price-to-cash-flow multiple compared to peers. Its current valuation is not expensive, making it a solid long-term bet.

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