Forget Blackberry (TSX:BB) and Buy This Technology Stock for Supercharged Growth in 2020

Description

There are many investors right now who are smacking their lips at the prospect of investing in **Blackberry**, now that it has had terrible quarterly earnings and many pundits are talking about how this could be a great entry point.

The problem is that the company has been on shaky ground for the last couple of years, despite significant re-tooling of its business model and structure.

I'm here to shine the spotlight on another Canadian technology stalwart that has been on an upward tear for the past few years. The company I am talking about is **Open Text** (TSX:OTEX), a world leader in enterprise information management with 74,000 corporate-level customers globally.

The company helps other companies unlock their data and information to ensure better customer experience and insights, as well as data privacy and security. Open Text allows companies to mine data to create value. It's at the right place at the right time and its growth trajectory bears proof of that success.

Financials don't lie

My regular readers know that I love companies that generate positive cash flow because while accounting-based earnings look good on paper, its the cash flow that pays the bills and leads to share buybacks and dividend payments.

Open Text has pristine financials with 12% annual growth in revenues for the last five years. This top-line growth has translated into significant bottom-line growth, with adjusted EBITDA growing by 104% for the same five-year period. These metrics suggest that Open Text knows how to efficiently sweat the revenue to get earnings.

What’s more, the company has a growing EBITDA margin profile, going from 34% of revenues to 38% of revenues over the last five years, which shows excellent operating discipline.

Now, for my favorite metric of all time, free cash flow. It’s not a surprise that the company generates a healthy 2019 free cash flow of US$633 million, which is essential, given the company’s strategy of growth by acquisition.

Strategic partners will fuel growth

Open Text has been very smart about creating the right partnerships with enterprise giants like SAP, Google, and Mastercard, which will fuel its growth for the next decade and beyond.

For example, OpenText and Mastercard will partner to transform financial processes across global supply chains. They will start by looking at the automotive industry and focussing on new solutions that aim to increase the speed and security for business information, payments, and financing in the automotive supply chain.

This solution will facilitate integrated payments as well as enhance the management of vendor master data, enabling suppliers to better manage risk for trade finance and secure financial transactions with enhanced digital identity.

These partnerships are cash cows for Open Text because they tend to last for years in many cases. The greater recurring cash flow visibility will almost certainly translate into stock price growth because visibility reduces uncertainty, which the investment community hates with a passion.

Could it be a takeover target?

While Open Text is a large-cap with $16 billion in total enterprise value, it is still not inconceivable for the company to be bought out by one of the large U.S.-based software giants, including a strategic partner like SAP. Indeed, its cash flow profile will appeal to many that are looking for stability in turbulent times.

On the flip side, Open Text could make a splash and purchase something iconic, such as Blackberry, which would be appealing to Open Text, given Blackberry’s recent focus on data security and the Internet of Things (IoT).

Either way, Open Text has a tried-and-true strategy of growth by acquisition and it wrote the playbook on how to effectively integrate its acquisitions to ensure the Open Text ecosystem is stitched together in a profitable way.

The final verdict

Open Text is currently trading at $52, which means that the share price has doubled in under fiveyears. The stock is a little bit pricey at a price-to-earnings ratio of 37, but that’s hardly a surprise givenits consistently high double-digit annual growth rates.

Smart investors would do well to watch closely for a rare earnings miss, which would result in short-term pressure on the stock, and start nibbling under $50 to set themselves for a happy retirement.

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Date
2025/08/17
Date Created
2019/10/27
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