TFSA Investors: Should You Invest in Open Text (TSX:OTEX) for its Dividend?

Description

If you're looking for dividend stocks to put into your TFSA, you know that the yield is just one of many factors that you should consider. Investing solely for the dividend can be risky, and that's why it's important for investors to actually like the company that they're investing in before buying shares of it. However, that doesn't mean that yield itself is immaterial and that investors should settle for a minuscule payout just because other criteria have been met.

Is a small dividend yield worth it?

If you aren't earning a decent yield from a stock, you may be wondering what the point is, especially if the main strategy was to invest in a good dividend stock. After all, there are no shortage of dividend stocks that pay more than 3% or even 4% on the TSX, and so a low-yielding stock that's paying less than that may not be worth your time. Not only is it not much of a dividend stock at that rate, but it could also get in the way of a company's growth.

Open Text (TSX:OTEX)(NASDAQ:OTEX), for instance, pays investors a dividend of around 1.7%. For a dividend, it's not nearly high enough that many dividend investors would consider it. Even though the company has been raising its payouts, it could take years, depending on how the stock performs, before it gets to a high yield of, say, 4%, assuming it does at all.

Now, the argument could be made that the tech company offers more than just a dividend and that investors could benefit from some strong capital appreciation. As of the beginning of this past week, Open Text had risen by more 65% over the last five years. That's not a bad return for a stock that also pays a dividend. And while there's lots of potential for the company, which develops enterprise information management software, the problem is that those dividend payments could become impediments for the company's ability to grow.

By continuing to pay a dividend as the company grows, Open Text could be limiting its development and perhaps preventing itself from being able to take on a big acquisition to further its goals. That's why, for a growth stock, paying a dividend may not make a whole lot of sense, especially as the company is still developing its business. Even 1% could be too high in those cases. Meanwhile, a payout of that size would likely be too small for dividend investors that want to make the most of the money that they invest in the company.

Bottom line

The main reason a small dividend of 3% or less may not be optimal is that it can make it difficult for a company to decide where to focus its efforts. While it’s a way for investors to pad their overall returns, for a company like Open Text that’s involved in technology, it may not be a move that makes a whole lot of sense given the opportunities that could arise in that space. That’s why it’s a bit rare for similar companies to offer payouts. **Apple** is the best example of a tech stock that pays a dividend to its investors, but the company also sits on a lot of cash and is much more mature in its development.

For Open Text, that’s clearly not the case, and paying a dividend could end up doing more harm than good.

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