



TFSA Investors: This Canadian Tech Stock Could Gain Over 15% in 2020

Description

Technology companies operate in a fickle industry. They have to constantly innovate to survive or build a moat large enough to keep competition at bay. The second option means they have to build recurring revenue streams, quickly capture the leadership role, and acquire and build alliances to ensure they stay on top.

Open Text Corporation ([TSX:OTEX](#))([NASDAQ:OTEX](#)) is one of Canada's leading enterprise information management solution companies. OTEX products help other businesses to grow faster, reduce operational costs and facilitate easier corporate governance.

The company reported recently its revenues for the fourth quarter of 2019. Its total revenues grew to \$781.8 million, up 6.3% year over year.

Annual recurring revenues grew to a record \$570.8 million, up 7.8% year over year and representing 73% of total revenues, driven by cloud services and subscription revenues of \$250.2 million, which increased significantly by 14.1% year over year. The company also generated solid operating cash flows of \$207.2 million.

Open Text has been on a growth path for the last four years. Its revenues have risen from \$1.82 billion to \$2.87 billion. It has beaten earnings estimates every quarter for the last year.

Open Text has a forward dividend yield of 1.5% range, and while that might not seem like a lot, it has been paying out dividends for the last seven years.

The stock was trading at USD\$10 on the NASDAQ in April 2010 and has gone up over 4.2 times in the last decade. It's a great stock for investors to buy into. Analysts tracking this stock have given it an average rating of USD \$52.12 in the next 12 months — an upside of almost 15% from its current levels of \$45.58.

Building a moat

In 2019, Open Text [acquired Carbonite Inc. for](#) USD \$1.42 billion. This transaction is inclusive of Carbonite's cash and debt. Carbonite is a provider of cloud-based subscription data protection, backup, disaster recovery and endpoint security to small and medium-sized businesses and consumers.

OTEX expect Carbonite revenue contribution to be down for the next few quarters because of typical integration activities, and then normalize to historical levels thereafter.

As the amount of data transmitted over the internet is rising exponentially, Open Text stands to make the most out of it. Demand for their products that help companies crunch vast quantities of data into easily understood data will only go up.

The company gained key clients in 2019 that were instrumental in recurring revenue going up. These clients included PFU Limited, the Ministry of Justice Rhineland-Palatinate, **ThyssenKrupp AG**, the Netherlands Ministry of Economic Affairs and Climate Policy, Lewis Rice, Kodak Alaris, Shinkai Transport Systems, Ltd., and **Morneau Shepell**.

Open Text will put into play a restructuring plan that will impact its global workforce and consolidate real estate facilities to streamline operations, inclusive of Carbonite. The anticipated cost is expected to be approximately \$26 million to \$34 million.

These restructuring activities are expected to be completed by the end of fiscal 2021. Once completed, Open Text anticipates annualized cost savings of approximately \$37 million to \$41 million. Any savings realized during the remainder of fiscal 2020 will largely be offset by one-time Carbonite integration costs.

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