Should You Buy OpenText Stock Amid Its Recent Weakness?

Description

Investing in growth stocks could be relatively risky, but can reap significant gains if entered at the right price. Top tech stock **OpenText** (TSX:OTEX)(NASDAQ:OTEX) has more than doubled in the last five years.

You might have read that this stock could be bought on dips given its stretched valuation. Well, this could be your chance. OTEX stock has fallen almost 10% since last week. Rising coronavirus impact has threatened the global economy, which weighed on the global financial markets recently.

Attractive valuation

OpenText stock has fallen approximately 10% since its 52-week high last week. Investors could consider adding or entering into this top tech growth stock amid this weakness.

Many would think this fall is small to consider as a correction. However, the stock is looking attractive from the valuation perspective. OpenText is trading 13.7 times its estimated earnings for the next 12 months.

This multiple is much lower than peer tech stocks' average and its historical average valuation as well. Peer tech stocks such as **Descartes Systems** and **Constellation Software** are currently trading at sky-high valuations.

Earnings and dividends

OpenText Corporation continues to look attractive from the financial viewpoint. Its net profit averaged around 20% in the last 10 quarters.

It has managed to maintain gross profit margins at very high, above 70% levels in the same period. OpenText management announced a restructuring plan last month, which will result in cost savings of $37 million to $41 million.

OpenText stock was uplifted by the company's higher earnings in the last few years, returning almost 20% in the last 12 months. Management's upbeat commentary and improving profitability will likely pave the path for its upward climb in the near future.

Its latest acquisition, Carbonite, though came at a significant premium, will also likely positively impact its earnings from next year. OpenText has a big potential of global expansion with Carbonite, as the later has operations primarily in the US as of now. How the acquisition benefits over the long term will be interesting to see.

While the company has managed an astounding growth both operationally as well as financially, it has mainly come from acquisitions. That said, successful and efficient integration will be the key challenge going forward.

OpenText pays attractive dividends as well. It's currently trading at a dividend yield of 1.5%. Even if the yield is not that attractive, it's fairly long dividend payment history and dividend growth makes it stand tall among peers.

It has increased per-share dividends by 16% compounded annually in the last five years. It should be noted that dividend growth plays an important role in investors' total returns over a longer period.

In a nutshell

Lucrative valuation, higher expected earnings, and good-looking dividend profile make OpenText stock an attractive buy. The recent weakness in broader markets has brought down many top growth stocks.

Thus, this could be an apt time to start investing in tech stocks such as OpenText amid its recent weakness who are concerned about their inflated valuations.

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