Millennials: 1 TSX Tech Stock You Don’t Want Miss Out on!

Description

TSX tech stocks have seen some massive volatility in 2020. For millennial investors, it presents a fantastic opportunity to start investing for long-term gains. Millennial investors are some of the most fortunate investors, because they have one major advantage: time. You have time to make mistakes, time to learn, and time to watch your investments compound over a lifetime.

One top TSX technology stock that is a perfect lifetime business to own is **Open Text** (TSX:OTEX)(NASDAQ:OTEX). It is a global leader in information management services with a focus on content services, business networks, cyber security, and digital experiences. Open Text provides essential digital and cloud infrastructure services for businesses across the world.

Open Text had solid Q3 results

Despite 95% of its workforce presently working from home, Open Text still had a strong third quarter. Revenues increased 13%, and annual recurring revenues increased 20.6%. The consistency and stability of the Open Text’s business is evident, since 80% of its revenues are recurring.

The company also saw cloud service/subscription revenues expand an impressive 42%! Operating cash flows increased 15.2%, but the company did see adjusted EBITDA and adjusted earnings per share, respectively, drop 1% and 4.7% year over year.

COVID-19 crisis factors were largely the cause of Open Text’s weak bottom line. Organic growth might be challenged for the rest of the year. However, management developed a restructuring program that should result in around $65-$75 million of savings per year and improve margins over the long term.

The company overall is in a good place to succeed, and below are a few reasons why it is a great TSX tech stock to buy today.

This TSX tech stock wins from businesses transitioning to the

cloud

First, the pandemic crisis is leading companies to implement cloud infrastructure and services quicker than ever. With more people working from home, businesses need to ensure they have the infrastructure and network quality to manage content, data, and security remotely.

Open Text has an integrated business platform to meet all of these needs. Open Text is restructuring to implement a hybrid, stay-at-home operations model itself, and it will benefit from other businesses doing the same.

In Q3, Open Text notably saw some major customer wins from **General Motors**, **Nestle**, and United Health Services Hospitals. It should also benefit over the long term from a new cloud collaboration agreement with **Amazon** Web Services.

Open Text is acquiring the right businesses

Second, this company has a strong history of acquiring high-quality tech and SaaS businesses. Its 2019 acquisition of cloud-based data protection specialist Carbonite is already accreting strong results that are better than expected.

Open Text has a reasonable amount of debt with 2.25 times net debt to adjusted EBITDA; however, it has no major debt maturities until 2024. It has an overall cash balance of $1.4 billion, and it just added a small tuck-in acquisition of XMedius (secure information exchange services). I believe it is well capitalized to continue to fuel more acquisition growth.

This tech stock is cheap compared to TSX peers

Lastly, Open Text's stock is trading cheaper than its TSX tech peers. Its stock trades at an enterprise value to EBITDA of 18 times, while SaaS peers like **Descartes Systems** and **Constellation Software** trade at 46 and 33 times.

Comparatively, the stock is still attractively priced here. It is trading down 11% from its February highs and has a decent 1.76% yield.

The Foolish takeaway

Although Q4 could be slightly flat for Open Text, it is investing now for long-term growth. Quarterly results can be lumpy for this business, so make sure to focus on its annual results.

Overall, Open Text is a solid TSX tech stock with some really strong secular tailwinds. It is a perfect stock for millennials to tuck away, collect the dividend, and watch it prosper from the continued digitization of business and society.

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