Tech Investors: Forget Chasing High Flyers and Buy This Tech Stock Instead

Description

Markets are on fire in the United States. A large part of the upside move has been due to the influence of tech stocks on the overall market. Most stocks, in fact, have not moved up terribly quickly. These facts also are true for the Canadian market. Practically every stock is up from March lows, but the outsized return of large-cap growth stocks in the tech sector are the main winners.

But this leadership does not spread to the entire tech sector. It only applies to the hottest names in the space with the highest posted growth rates. Stocks that are growing steadily with strong dividends in the same sector are not having nearly the same capital draw as is the case for the high-growth names.

Great news for investors

Fortunately for investors, this means that you can still buy stocks in the tech sector for relatively attractive valuations. These are not the high flyers that you can pick up at massive premiums today, but they are more attractive at this level if you are looking for long-term growth at a reasonable level.

Open Text (TSX:OTEX)(NASDAQ:OTEX) certainly fits into this camp. It has not yet even approached its all-time high of over $60 a share. This stock trades quite cheaply for the tech sector, with a P/E multiple of 14 times forward earnings and a price-to-book ratio of just under three times book. Compare this to many high flyers that don't even have a P/E, as they are losing money. For a tech company, this valuation is quite reasonable.

Performance

Honestly, this is probably one of the biggest drawbacks to the company. It is not a hot, high-growth stock by any stretch. It still boasts double-digit revenue growth, although Open Text has more modest quarterly results than other names.

In the company's Q3 report released in April, Open Text reported solid results. Revenues were still up double digits at 13.3% year over year. The most important revenues in my mind, recurring revenues, rose even more. Those were up 20.6%. I really like recurring revenue as a metric, because these revenues allow the company to have clear visibility for capital expenditures, dividend payouts, and buybacks.

Its highest growth area was in cloud computing. Cloud computing revenue rose by 42% over the same time frame. Cloud computing has been the way of the future for many companies, so it is nice to see Open Text benefiting from this growth area.

Dividends

Open Text does not have a large dividend, but its payout is growing quickly. This stock raised its dividend by double digits several times over the years. Last year, the company raised the dividend by 15%. Although most inventors don't seem to care about dividends anymore, I still like getting those growing payouts.

The bottom line

Open Text is a good investment if you are looking for tech stocks. Personally, I'm sticking to the cheapest deals in the market, but if you are looking for a decently priced tech stock this is the one to buy. It operates in growth sectors, has incredible revenue growth, and still has a lot of room to go ahead of it. This stock even has a dividend that is growing at a fast pace. You might not see this stock shoot straight up, but Open Text is a company that will give you great growth over time.

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