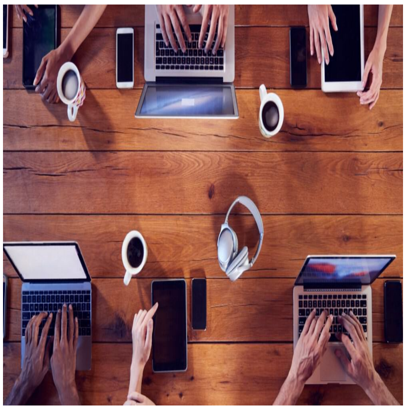

This Ignored TSX Tech Stock Will Steadily Create Wealth for Investors

Description

Despite rewarding investors with a staggering 568% total return over the last decade, leading information management solutions provider **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is surprisingly a rarely discussed TSX tech stock among retail investors today.

The $16 billion tech giant has significantly transformed its business profile over the decade. Its cash flow and earnings are more recurring and visible than ever. The company has proven its strong revenue and cash flow resilience in a COVID-19 pandemic-stricken economy. However, at the time of writing, Open Text's stock price is still hovering below pre-pandemic levels, yet industry peers have sored.

OTEX's operations were not exactly immune to the coronavirus impact. Some customer areas like auto, airlines, retail, construction, and services were negatively affected. However, some areas, including customer experience management, government, security, and work-from-home technologies, saw a positive pandemic impact. Plausibly, operations still hit new key records during a global crisis.

Open Text hit new earnings records during COVID-19

Open Text released its record-breaking fiscal 2020 earnings results on Thursday, August 6 last week. The company's total annual revenue grew 9.7% year over year to a record US$3.15 billion, supported by a record US$1.17 billion in cloud revenues, up 28.4% year over year, both on a constant-currency basis.

Fourth-quarter revenue hit another record at US$826.6 million. This was boosted by a strong 37.5% year-over-year growth in largely recurring cloud services and subscription revenue. That said, a nearly US$76 million in fourth-quarter special charges reduced full-year diluted net earnings to just US$0.86 per share, down from US$1.06 last year.

However, the company generated a record cash flow of US$954.5 million from operations, up 8.9% year over year. Its cash and cash-equivalence balance topped US$1.69 billion at quarter-end, a level last seen in December 2017 after a new equity raise.

Is OTEX stock a good long-term investment?

The company is a mature business that has continued to grow over the decades since the 1980s. It serves 89 out of the world's largest 100 companies, while 21 out of the 25 largest supply chains in the world are its business network customers. It's tried and tested.

The company's operating earnings were weaker during fiscal 2020, as it worked on integrating recent acquisitions and restructuring its operations. However, its annual adjusted EBITDA margin, a more stable indicator of operating profitability, continues to expand, while healthy and growing free cash flows are being harvested.

Companies that continue to generate ample free cash flow during the COVID-19 pandemic were the best investment candidates during an equity market recovery after a devastating crash in March this year.

Resilient cash flows are key to the company's acquisitions-led growth strategy. They provide dry powder to fund new acquisitions deals that bring new products and innovations into the mature organization. Cash flow growth allows the company to pay down debt and de-lever its operations if it so decides. Actually, a healthy and growing cash position is more than desirable during crisis times. It's gold.

Moreover, investors have better earnings and cash flow visibility on this firm. The company has grown its annual recurring revenue (ARR) from just 54% of sales 10 years ago to nearly 80% by June this year. Management targets ARR to comprise 80-82% of fiscal 2021 revenue. Given ever-improving enterprise contract renewal rates and a sustained move from one-time licences towards cloud-based recurring subscriptions, this is attainable.

Improving earnings visibility could mean lower investment risk on Open Text stock. Investors usually pay a premium on similar low-risk investments that survive economic crises.

Watch the new product release cycle

Management claimed in the most recent earnings call that OTEX has shortened its new product release cycle from every 15 months about four years ago to every 90 days today.

New products help retain and grow market share while increasing the revenue base and boosting operating margins. Announced partnerships with SAP, Google, **Amazon**, and **Microsoft** could prove critical in securing recurring cloud business in the future.

The company could keep hitting its upper teens return on invested capital target in the foreseeable future.

Foolish bottom line

Open Text stock appears to be a good long-term buy-and-hold candidate for wealth creation. The company's revenue and cash flow resilience will always attract a valuation premium during economic crises. Near-term profitability would be a nice bonus.

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brianparadza