3 Reasons Why Open Text (TSX:OTEX) Stock Is a Buy Today

Description

There's a stock-buying thesis that's starting to gain more ground, as 2021 unfolds before investors. That thesis is "growth at a reasonable price." Growth investing may flip over into value investing, as the realities of the pandemic permeate through a sobered-up post-holiday market. This could see the growth-value middle ground attracting more attention. But which names are likely to benefit from the handover?

From security suites to customer management platforms, **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is a familiar name in the business world. It's got several key characteristics that mark it out as a stock to buy in a market flipping from growth to value. With some of the facets of a value stock but also many of the real-world applications of business-focused tech name, Open Text is a hot pick for the new year.

A wide-moat pick with attractive valuation

This key Canadian tech business has managed to corner the market for enterprise information management (EIM) software. And like all the best manufacturers, it not only develops but also markets its products. But value is still front and centre. Investors with a moderate threshold for risk are always looking for growth at a reasonable price. Open Text satisfies that mandate to a tee, having missed the overvaluation train in 2020.

OpenText sells at three times its book value, with a P/E of 47 times earnings. But the past year has skewed a lot of companies' P/E ratios, leaving the P/B somewhat more relevant. In contrast, the average Canadian software P/B is seven times book. Furthermore, compared with projected future cash flows, Open Text is technically undervalued by 23%.

A top tech stock with growth prospects

Open Text is a smart play for any investor seeking access to growth by acquisitions. It's a far less risky route to growing a business's top line than striking out into uncharted waters. The other reason why Open Text ticks the growth box for lower risk shareholders is that it brings cost-saving synergies to its portfolio of assets. This is good for overall health, helping Open Text to leapfrog up the ladder to a leaner balance sheet.

A tech-plus-recovery thesis all in one name

Imagine a stock that covered both sun tan lotion and umbrellas. Such a stock would satisfy all the eventualities in just one name, wouldn't it? Open Text could end up doing something very similar. By satisfying a range of different investing strategies, Open Text makes itself relevant to an impressive gamut of pandemic scenarios. In other words, Open Text wins in both a protracted lockdown and a widespread reopening.

The industrial thesis for buying into reasonably priced tech is therefore particularly strong at the moment. At the end of the day, tech is nothing more than a mirror for the broader economy. Open Text is increasingly relevant in that regard. And to touch on earnings again briefly, growth in that area could hit 30% annually. In fact, total returns by mid-decade could be in the 90% range. Additionally, a 1.8% dividend yield adds an element that many tech stocks lack — a passive-income sweetener.

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Date
2025/08/22
Date Created
2021/01/06
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