Microsoft or Open Text? Invest in the Cloud With This Top TSX Tech Stock

Description

When considering companies focused on the cloud, **Microsoft** or another mega-cap stock in the U.S. may be the first company to come to mind. However, in this article, I'm going to highlight why I think **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is perhaps the best option for investors looking to invest in the cloud right now.

Business model highly sought after

One of the reasons I like Open Text relative to other cloud plays is the company's business model. The company is a cloud and site-based information management company. Open Text's clientele encompasses more than 10,000 companies globally. Additionally, its installed user base of 100 million is unparalleled for any Canadian company in this space.

Furthermore, Open Text provides Canadian investors with an excellent diversification thesis. This is a company with the vast majority of its revenues generated outside Canada. Accordingly, those looking for European and U.S. exposure can accomplish this in spades with Open Text. The company's customer base is well diversified as well, limiting concentration risk in its clientele portfolio.

Perhaps the key piece of information I think investors should consider is Open Text's recurring revenue model. Approximately 90% of the company's revenues are recurring. That's a business model built for stability. In having stable, reliable, recurring revenue each and every month, Open Text is an easy stock to forecast. The company's growth profile is reliable and consistent. Accordingly, Open Text's stock price has reflected this via a premium multiple.

This isn't a cheap stock, but you get what you pay for

This premium multiple puts Open Text in the upper echelon of pricey stocks right now. Indeed, this stock is trading at 188 times earnings at the time of writing. Investors are pricing a lot of growth into this company. Accordingly, it appears investors need to have a high degree of confidence in the ability of Open Text to execute over the long term to own this stock.

I think Open Text does have the ability to generate the growth that's priced in right now. Historically, Open Text's execution on its growth strategy has been nothing less than excellent.

Open Text has created this growth primarily through acquisitions over the years. As I've pointed out in the past, this growth strategy has been very profitable for the company and investors. Over the past decade, Open Text has deployed around $6 billion in acquisitions. These deals have boosted growth and have generated the returns investors see today. Open Text's return for investors has been roughly twice that of the TSX over the long term.

These acquisitions have also provided impressive free cash flow generation. Open Text's ability to grow via acquisition is thus improved due to the tremendous amount of dry powder available for future acquisitions.

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