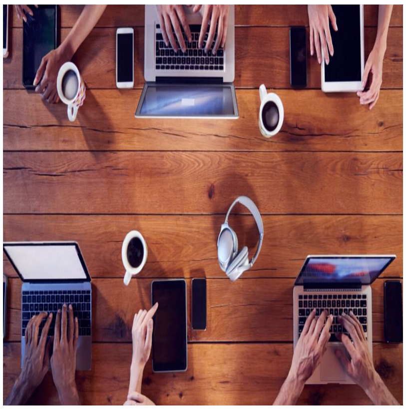

Open Text (TSX:OTEX): The Ultimate Tech Stock for Value Investors

Description

Tech stocks have had a rough start to 2021. Several of the biggest names in software and technology have lost over a 10th of their value since February. This mild correction could have made some stocks cheaper and more attractive for long-term bargain hunters.

After struggling for direction for most of the first quarter, **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is once again showing signs of edging higher. The stock is up to one-year highs, having recouped all the losses accrued over the past 12 months.

Here's why this underrated tech stock is worth your attention.

Expanding business

Open Text has carved a niche for itself as a reliable supplier of solutions that enhance digital transformation. Its solutions are helping customers accelerate and simplify their path to information modernization. The acquisition of Carbonite has accorded the company access to world-class channel organization and partners.

Acquisitions like these help the company gain a foothold in new markets. Meanwhile, partnerships with industry leaders help the team strengthen the core product. For instance, Open Text's partnership with Google allowed it to integrate Google Cloud into its platform for enterprise customers.

Its solutions are also increasingly connecting large digital supply chains in manufacturing retail and financial services. Open Text is already in touch with 40% of the top 10,000 enterprise companies worldwide that can leverage its solutions. With a potential pool of 74,000 enterprise customers, the company only has a 10% penetration rate.

Undervalued tech stock

A move to reach out to more enterprises and customers should go a long way in strengthening Open Text's revenue base. In the latest quarter, the company has reported record recurring revenues of $804.9 million — up 15.4%. Earnings before interest, tax, depreciation, and amortization (EBITDA) inched up 34.7% to $342.3 million.

The stock is currently trading with a trailing P/E ratio of 18.21 implying it is favourably valued given the P/E for the S&P 500 stands at 28.10. Technically, the stock is undervalued, as it is trading with a price-to-sales ratio of four. Likewise, Open Text comes with an exciting dividend yield of 1.66%.

Open Text is a fundamentally attractive investment, as it appears undervalued, going by its P/S of four. A dividend yield of 1.66% should excite income-focused investors, as the company is poised to generate significant cash flow given the strong demand for its software solutions across various industries.

Bottom line

Despite the recent correction, investing in tech stocks is far from easy. Most industry leaders are still worth several times more than they were last year. Startups are trading at many multiples of revenue. In some cases, they're worth north of $1 billion, despite being pre-revenue!

Value investors tend to struggle in such environments, which is why overlooked and underrated stocks like Open Text are worth their attention. Open Text has the right mix of fundamentals, positive cash flows, attractive margins, and fair valuation to justify a spot on a long-term tech stock investor's portfolio.

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