1 Depressed Tech Stock to Buy in April 2022: It Pays a Growing Dividend!

Description

Open Text (TSX:OTEX)(NASDAQ:OTEX) was not immune to the recent tech stock selloff. However, compared to tech stocks that have little to no earnings at all, OTEX stock is a much more reassuring investment.

A track record of profitability and dividends

Open Text has been a well-run business that has been profitable through economic cycles. In the last 20 years, it has been profitable every year with earnings growth, except for one year in which earnings per share (EPS) dropped 12%. Moreover, that earnings drop happened in fiscal 2005, about 16 years ago. In the past 10 years, the tech stock boosted adjusted EPS at a compound annual growth rate of approximately 12.9%.

The company began paying a dividend in 2013. The quality of its earnings has allowed it to increase its dividend by 13.9% per year since 2014.

Here are Kim Bolton's comments on the company from February:

> "Open Text develops and sells enterprise information management software. We have a price target of US$61.75. You could buy some here at US$45, and some at US$43. Use a stop of US$40. Last week, Gartner Research named it a leader in content services platforms. It's a quality name."
> *Kim Bolton, president and portfolio manager at Black Swan Dexteritas*

Here's Brian Madden's take on OTEX stock in late March:

> "We added to our position seven to 10 days ago. Software companies have been dragged down with tech. Open Text sells to medium and large size businesses globally. It has compounded with 80 acquisitions over the decade and has a good combination of growth

> and value at 12 to 13 times earnings."
> *Brian Madden, chief investment officer at First Avenue Investment Counsel*

It's certainly a confidence booster that Brian Madden's company recently added to its position.

How cheap is the depressed tech stock?

Open Text stock has corrected about 20% from its 52-week and all-time high. That's a meaningful decline to consider the dividend stock as a potential investment. It's sitting on a 200-day simple moving average, which seems to be acting as support.

At US$43.61 per share, Open Text trades at about 12.9 times its 2021 earnings. Its growth has slowed recently, which is one of the factors that has depressed the stock. Its trailing 12-month revenue growth was 4.1% (2% in constant currency terms), driven by cloud revenues growth of 5.4% (4.2% in constant currency) in the period. Cloud revenues make up about 42% of its total revenues.

Notably, about 81% of its revenues are recurring, which helps contribute to its earnings quality and stability. At $54.56 per share, it trades at a decent discount of 27% from the 12-month analyst consensus price target. So, it has near-term upside potential of about 37%.

The Foolish investor takeaway

Open Text's three-year revenue-growth rate is 6.35%. In the period, it also improved its gross profit margin by 3.2% to 69.4% and its operating margin by 2.9% to 21.9%. From the tech company's history, management is laser focused on the business's profitability.

As a result, it should lead to market-beating total returns over the next five years for an investment purchased at today's reasonable valuation. The dividend stock also provides a yield of about 2% on a sustainable payout ratio of under 30%, which helps contribute to its total returns.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)
2. TSX:OTEX (Open Text Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/07/19
Date Created
2022/04/01
Author
kayng