Investors Hate This Dividend Stock, So it May Be Time to Buy

Description

I recently shared **Open Text** (TSX:OTEX)(NASDAQ:OTEX) stock as a potential buy idea on a social media platform. I wasn't surprised that most comments were negative about it. The focus went to the technical chart that I had added to the post.

Okay, so, the daily technical chart of the stock looks horrible. The dividend stock trades below its 50-day simple moving average (SMA), which is in a downward trend. Moreover, the 50-day SMA also crossed under its 200-day *and* 400-day SMAs earlier this year. Both long-term averages are flat. Just because of how bearish the stock looks, traders would stay away until a reversion has happened. But I'm not a trader.

I look at technical charts as a supporting tool for an entry point to quality businesses I potentially want to own. As a long-term investor, I emphasize more on the fundamentals of the business. First and foremost, Open Text is not going away. Its business fundamentals are rock solid. The only thing that may be causing investors to stay put on the sidelines is its slowed growth recently.

However, no business grows every year — not even **Apple**. Open Text is already a wonderful business for staying profitable through economic cycles. In fact, its earnings per share (EPS) have only dipped in a single year over the last 20 years or so — that is, its EPS has increased for the long haul. In the last 10 years, OTEX stock's earnings per share increased at a compound annual growth rate of approximately 12.9%.

How cheap is Open Text stock?

Investors hate Open Text stock right now. It has corrected more than 20% from its 52-week high. To be sure, the company is not trading at its cheapest levels compared to its historical trading valuations. In the last nine years or so, it has traded as low as the 10.8 times earnings level.

Currently, it trades at about 12.8 times. However, it's still relatively cheap to its long-term normal valuation. The analysts' general consensus is that the dividend stock is undervalued by about 29%.

The stock seems to be forming a base at current levels, which could be a sign that the market is finally showing support for the decently valued stock.

What analysts think about the dividend stock

Brian Madden just added to his Open Text stock position last month.

> "Software companies have been dragged down with tech. Open Text sells to medium and large businesses globally. It has compounded with 80 acquisitions over the decade. A good combination of growth and value at 12 to 13 times earnings."
> *Brian Madden, senior vice president and portfolio manager, at Goodreid Investment Counsel*

Here's another fairly recent comment from Kim Bolton:

> "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 $40. Last week, Gartner Research named it a leader in content services platforms. It's a quality name."
> *Kim Bolton, president and portfolio manager of Black Swan Dexteritas*

I'm sure there are good reasons to use stop losses. Personally, I don't usually use stops because I invest in businesses that I believe will do well in the long run. Additionally, financial markets can trigger abrupt and severe corrections in stocks when the economic environment is gloomy. Besides, after selling at a loss, there's no guarantee that my next stock pick won't be a loser in the short term.

What investors need to do is focus on the long-term prospects of a business and its stock. With a long-term outlook, there's a better chance that good business can deliver the kind of outperformance you have in mind.

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