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5 Tech Profit Kings To Consider After The Recent Sell-Off

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By Douglas Ehrman

These tech stocks were chosen because of their profitability and because of the steep discount in their prices as a result of the recent selloff. Each one of these represents an opportunity to buy growth-- what most technology investors are seeking-- at a reasonable price based on price to earnings and price to earnings to growth ratios. Each of these names has gross margins above the industry average.

This article discusses five profit kings of tech, looking at their strengths and weakness. Not only are some tech stocks not profitable, very few are able to convert cash into quality investment. Thus, these companies were chosen because of their ability to convert cash into worthwile investments. In some cases, the stock highlighted will not be the single clear winner amongst its peers; but each company is a profit leader and is poised to perform for sophisticated investors in the months ahead.

Here is my analysis of each of these opportunities:

Ebix, Inc. (EBIX) – Operating in the software and e-commerce space to support the insurance industry, EBIX is a small company that has achieved outstanding results. Competing most directly with Computer Science Corp (CSC) and InsWeb Corp. (INSW), EBIX is the dominant player in terms of growth and efficiency. The company has a trailing price-to-earnings over growth (PEG) ratio of 0.45, compared to CSC at 0.73 and no reading for INSW due to a lack of guidance for growth estimates.

Where EBIX really sets itself apart is in its operating efficiency. The company achieved an operating margin of 39.4%, relative to a mere 6% for CSC and 2.7% for INSW. In addition, EBIX carries a dividend yield of 1.10%. While this is not a hefty yield, for a company with a market capitalization below $1 billion dollars, it is impressive. Furthermore, since the stock is not being suggested as a straight income play, the presence of an income kicker is an added bonus. Overall, the stock appears well positioned for the months ahead.

DTS, Inc. (DTSI) – While this company's main competitor is the more well-known Dolby Laboratories, Inc. (DLB), the strength here is in the company's significant growth potential. While DLB beats DTSI in most key financial metrics, DTSI has a market capitalization of $465 million, relative to $3.2 billion for DLB. The preferred result of this difference is that DTSI is more nimble, and has the potential to outpace DLB on the growth side. Furthermore, while DLB does have even more attractive metrics, those for DTSI are very strong as well.

On a trailing price-to-earnings basis, DTSI trades at 27.2 where DLB trades at 11.4. When the growth element is added to calculate the price-to-earnings over growth ((PEG)) ratios, DTSI is at 0.96 and DLB is at 0.65. A reading below 1.0 is considered very attractive. What is even more instructive here is the fact that while DTSI's price-to-earnings ratio is more than twice that of DLB, the PEG ratio is only about 150% higher. The growth factor that DTSI brings into the mix is its major selling point. Finally, while DLB outpaces DTSI in terms of operating margin at 44.8% and 30.7% respectively, both companies are well run and look strong moving forward. For sheer growth potential, DTSI is an attractive option.

Cirrus Logic, Inc. (CRUS) – This specialized semiconductor company competes primarily with STMicroelectronics NV (STM) and Texas Instruments, Inc. (TXN). Across critical financial metrics, the stock looks well priced and primed to perform. The threat that the US may face another recession within the next calendar year is bearish for tech, due largely to the fact that technology expansion is often readily cut by companies facing lean times. However, other consumers will look to technology during economic downturn to maximize efficiency and save on labor.

Against this backdrop, CRUS looks strong with a trailing price-to-earnings ratio of 6.4 – against 6.5 for STM and 11.6 for TXN – a price-to-earnings over growth (PEG) ratio of 0.65 – against 0.7 for STM and 1.27 for TXN – and an operating margin of 20.2% - against 6.7% for STM and 29.4% for TXN. In addition, CRUS has turned in double digit earnings growth with few signs

of slowing, with a very stable number over the past five years in unleveraged cash flow. With these numbers in mind, the stock is a buy.

NIC, Inc. (EGOV) – While on their face, the financial metric for EGOV are mixed, this is definitely a “story stock,” meaning that an investor is buying how the company is positioned and the story as much as any individual measurement of the company’s performance. EGOV is in the business of designing and supporting portals and other software application for the government. Essentially, the company helps the government go online and increase efficiency.

While bureaucracies are notorious for being slow and late adaptors, there has been an increasing push in this segment, particularly as the deficit continues to soar. It is likely that these efficiencies will become an increasingly big part of near-term elections. Relative to close competitor Unisys Corp. (UIS), EGOV has a higher price-to-earnings ratio, but is far superior in terms of operating margin. While it is preferable to see a good value, operating efficiency is more encouraging when looking at a story stock with good growth potential.

Altera , Corp. (ALTR) – This dominance that ALTR has established in its market segment over the past several years has made it a nearly required part of any well constructed portfolio. Where it used to be nearly indistinguishable from rival Xilinx, Inc. (XLNX) across most major metrics, when XLNX stumbled, ALTR charged ahead and has never looked back.

By the numbers, ALTR has a trailing price-to-earnings ratio of 12.6, compared to 12.5% for XLNX. From there, it ceases to be close. When growth is added to get the price-to-earnings over growth (PEG) ratios, ALTR is at 0.9, against 1.1 for XLNX; a reading below 1.0 is considered attractive. In terms of operating efficiency, ALTR is running at an operating margin of 45.5%, against 32.9% for XLNX. While both are good companies, ALTR is a clear leader and an important part of most portfolios.

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.