Is Enghouse Systems Limited the Top Software Stock to Own Today?

Description

Enghouse Systems Limited (TSX: ESL), one of the world's leading developers of enterprise software solutions, released fourth-quarter earnings after the market closed on December 18 and its stock has responded by making a slight move to the downside. Let's take a closer look at the quarterly report to determine if we should use this weakness as a long-term buying opportunity or if we should avoid an investment for the time being.

The better-than-expected Q4 results

Here's a summary of Enghouse's fourth-quarter earnings compared to what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	$0.36	$0.33	$0.36
Revenue	$62.06 million	$61.71 million	$47.17 million

Source: Financial Times

Enghouse's earnings per share remained unchanged and its revenue increased 31.6% compared to the fourth quarter of fiscal 2013. These results were driven by the completion of five acquisitions during the fiscal year and sales increasing 32.8% to $32.22 million in its Hosted & Maintenance Services segment, 27.4% to $19.12 million in its Software Licenses segment, 39.5% to $8.86 million in its Professional Services segment, and 19.9% to $1.86 million in its Hardware segment.

Here's a quick rundown of eight other important statistics and updates from the report:

1. Net income increased 0.3% to $9.74 million.
2. Gross profit increased 28% to $42.88 million.
3. The gross margin contracted 90 basis points to 69.1%.
4. Adjusted EBITDA increased 25.8% to $15.6 million.
5. The adjusted EBITDA margin contracted 120 basis points to 25.1%.

6. Operating profit increased 21.7% to $14.59 million.
7. The operating margin contracted 190 basis points to 23.5%.
8. Ended the quarter with $84.9 million in cash, cash equivalents, and short-term investments.

Should you buy shares of Enghouse Systems today?

Enghouse Systems is a leading provider of enterprise software solutions, and increased demand for its products and services led it to a very strong fourth-quarter performance. The company reported year-over-year growth of more than 20% in revenue, gross profit, EBITDA, and operating profit, while also surpassing analysts' earnings per share and revenue expectations, but its stock has responded by declining slightly.

I think the weakness in Enghouse's stock represents an intriguing long-term opportunity, because after this decline, it trades at 28 times fiscal 2015's estimated earnings per share of $1.42 and just 22.5 times fiscal 2016's estimated earnings per share of $1.77, both of which are inexpensive given the company's growth rate. In addition, the company currently pays an annual dividend of $0.40 per share, which gives it a respectable 1% yield at current levels.

With all of this information in mind, I think Enghouse Systems represents one of the best long-term investment opportunities in the software industry today, so investors should take a closer look and consider initiating positions in the days ahead.

CATEGORY

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