Why Enghouse Systems Limited Rallied 5.76% on Friday

Description

Enghouse Systems Limited (TSX:ENGH), a leading global provider of enterprise software solutions, watched its stock jump 5.76% on Friday following the release of its fourth-quarter earnings results. Let's break down the quarterly results and the fundamentals of its stock to determine if it could continue higher from here, and if we should be long-term buyers today.

The results that ignited the rally

Here's a quick breakdown of 10 of the most notable financial statistics from Enghouse's three-month period ended October 31, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Software Licenses revenue	$24.75 million	$24.26 million	2.0%
Hosted & Maintenance Services revenue	$43.32 million	$38.38 million	12.8%
Professional Services revenue	$14.19 million	$15.42 million	(7.9%)
Hardware revenue	$1.98 million	$667,000	196.1%
Total revenue	$84.23 million	$78.73 million	7.0%
Revenue, net of direct costs	$58.91 million	$54.67 million	7.8%
Adjusted EBITDA	$24.78 million	$26.64 million	(7.0%)
Adjusted EBITDA margin	29.4%	33.8%	(440 basis points)
Net income	$18.90 million	$19.91 million	(5.1%)
Diluted earnings per share (EPS)	$0.69	$0.73	(5.5%)

What should you do now?

The fourth quarter was solid overall for Enghouse, and it capped off a strong year for the company, in which its revenues increased 5.6% to $325.37 million and its diluted EPS increased 7.5% to $1.87 when compared with fiscal 2016; with these results in mind, I think the +5% pop in its stock was warranted, and I think it still represents an attractive long-term investment opportunity for two fundamental reasons.

First, it trades at attractive valuations. Enghouse's stock currently trades at 29.1 times fiscal 2018's estimated EPS of $1.99 and 25.8 times fiscal 2019's estimated EPS of $2.25, which may seem high at first glance, but I think are actually attractive given its estimated 8.9% long-term earnings-growth rate. I also think analysts' estimates for 2018 and 2019 are low given Enghouse's recent flurry of acquisitions, including its acquisition of Tollgrade Communications in April, its acquisition of Survox in September, and its acquisition of XConnect Global Networks last month.

Second, it's a dividend-growth star. Enghouse currently pays a quarterly dividend of $0.16 per share, representing $0.64 per share annually, which gives it a 1.1% yield. A 1.1% yield is far from high, but it's of the utmost importance to note that fiscal 2017 marked the ninth consecutive year in which the company had raised its annual dividend payment, and its 14.3% hike in March has it on track for fiscal 2018 to mark the 10th consecutive year with an increase.

When including reinvested dividends, Enghouse's stock has returned more than 48% since I first recommended it on December 19, 2014, and I think it still represents an attractive long-term investment opportunity today, so take a closer look and consider beginning to scale in to a position over the next couple of weeks.

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