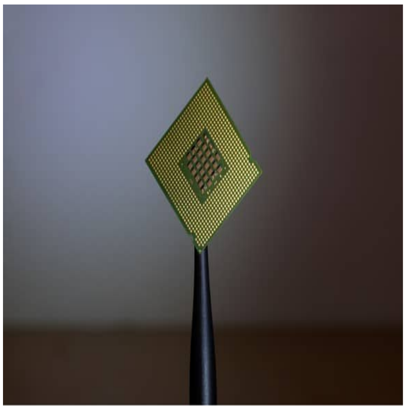

1 Tech Stock for Dividend Growth

Description

It's hard to believe that a year ago I was just waiting for something to happen in the stock market. At that time there was nothing to buy, as valuations and stock prices shot up while volatility remained at all-time lows.

What a difference a year makes. I don't think there was more than a couple of 1% drops on the Dow the entire year last year. These days, a rise or drop of more than 1% on any particular index seems to be a regular occurrence. While this does make for a wild roller-coaster ride as opposed to a calm Sunday drive, the stomach-churning volatility gives investors significantly more opportunities to buy stocks than what was available a year ago.

Another positive aspect of the increased volatility is the fact that there are many more sectors to choose from. Dividend stocks are much cheaper, although they recently have risen somewhat, and even technology stocks are looking more reasonable. For income-focused investors, these cheaper prices are a blessing over the long term. **Enghouse Systems** (TSX:ENGH) might be one such company to consider for your dividend portfolio.

As a software company focused on strategic acquisitions, Enghouse has experienced rapid growth as it expands it product offerings. The software company grows organically and through strategic acquisitions targeting the Contact Center, Networks (OSS/BSS), and Transportation/Public Safety sectors. One significant positive for the company is that it has next to no debt and has maintained a steady share count. Its acquisitions are carried out largely in cash, making this an incredibly stable company considering its strategy.

In the past quarter, Enghouse experienced acquisition-driven revenue growth of just under 5% over the same quarter a year earlier. Net income increased by 43.6% and income from operating activities by 18.1%. All of its numbers were positive, indicating steady growth from this company.

Enghouse pays a somewhat modest dividend of around 1% at the current share price, but don't let the small yield fool you. The company has been regularly increasing its dividend by about 10% per year for a long time. If its earnings growth continues, you can be sure the dividend will continue to grow as well.

The biggest reason not to invest in the company is the fact that, even after the pullback, the stock is still quite expensive. It currently trades at a price-to-earnings multiple of 32.1. While this ratio is certainly less than it was a few months ago, it is by no means a low valuation. This means that there could be further downside if there is a combination of market weakness and an earnings miss.

As a strongly growing Canadian tech company, Enghouse is definitely worth keeping an eye on at these levels. The biggest issue with the company is its still-high valuation, leaving the stock with the significant possibility of downside risk. You also have to consider whether you would rather own this company or a larger American company. The dividend tax credit is nice, though, which might make all the difference for some income investors.

At the moment, you could probably start picking away at Enghouse shares, adding more if it continues to fall. If you want to add a Canadian technology company to your dividend-growth portfolio, Enghouse is a pretty good choice.

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