These 2 Quality Stocks Are Oversold: Is it Time to Buy?

Description

It's not often that the oversold list is home to such high-quality companies. This past week, **Enghouse Systems** (TSX:ENGH) and **NFI Group** (TSX:NFI) were the most oversold stocks on the TSX. They were the only two stocks to have a 14-day **Relative Strength Index** (RSI) below 27. An RSI under 30 is typically used as benchmark to indicate that the stock is oversold.

It's important to mention that Enghouse Systems and NFI Group have been two of the best-performing stocks on the TSX. Over the past five years, Enghouse has returned on average 25% a year. NFI's performance has been even better with average returns of 35% annually over the same time frame.

So what happened to these two quality companies? Was the selling pressure warranted? Let's take a look.

A top tech stock

Enghouse is an enterprise resource planning (ERP) software company. Over the past five years, it has grown earnings by 18% on average. The company has been under pressure since early March when it released first-quarter results. Earnings of $0.27 missed by $0.03 and revenue of $86.04 million missed by $4.95 million. It was a rare double miss for the company and its stock price has lost 15% of its value since reporting.

The problem is one of slowing growth. Revenue inched up only 1% over the first quarter of 2018, which was negatively impacted by a decline in license revenue from its Interactive Management Group. Likewise, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) per share growth was also disappointing coming in at only 4.3%.

At 26 times earnings, Enghouse is priced as a growth stock. As a serial acquirer, one of the biggest risks for the company is lack of synergy and lack of well-priced targets. As the industry continues to consolidate, growth through acquisitions is beginning to get expensive. Slowing growth is definitely reason to be concerned, but this can change on a dime with one significant acquisition. It's a company worth monitoring

.

A top manufacturing stock

NFI Group (formerly New Flyers Industries) manufactures buses and motor coaches. On Wednesday, it reported fourth quarter and year-end results that beat on both the top and bottom lines. Earnings of $0.69 per share beat by $0.04 and revenue of $662.02 million beat by $14.49 million.

The fourth-quarter and full-year results weren't the issue. The company posted record new vehicle deliveries and record revenue of $2.5 billion up 5.8% over fiscal 2017. Adjusted earnings be share increased by 13.3% and the company also announced a 13.3% increase to its dividend.

Interestingly, NFI's sell-off began two days before earnings and continued thereafter. It lost 8% of its value last week.

Although demand for buses is expected to remain healthy, management used a cautioned tone when discussing its outlook. Of particular concern was that transit agencies are issuing smaller awards and shorter term contracts. Agencies are taking their time figuring out how they will move forward with their zero emission buses (ZEB) programs.

It also warned that first-quarter deliveries were impacted by one-time events such as missed production days and customer inspection visits due to adverse weather. It also experienced production inefficiencies due to the launch of new products and supply issues. All this to say that the first quarter is looking to be a disappointment.

Should investors worry? Not yet. The company reaffirmed guidance and it still expects to hit expected full-year delivery targets. Although slowing, the overall market demand remains healthy and it is still expected to growth its top line and EBITDA. However, investors should expect greater quarterly volatility over the next year or so.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:ENGH (Enghouse Systems Ltd.)
2. TSX:NFI (NFI Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Date
2025/07/02
Date Created
2019/03/18
Author
mlitalien