Does This Red-Hot Canadian Tech Stock Belong to Your Portfolio?

Description

Canadian tech giant **Enghouse Systems** (TSX:ENGH) stock surged by 20% on Friday after the company released a set of strong numbers in its fiscal fourth-quarter 2019 results after market close on the previous day.

The enterprise communications software developer's financial results impressively ticked many good boxes.

Revenue growth was a strong 27.4% year over year for the fourth quarter, reflecting the strong contribution from prior acquisitions during the fiscal year, while annual revenue increased by 12.6% year over year to $386 million — another new record for the tech firm.

Although some operating expenses did grow with revenue, this was to be expected after new acquisitions were integrated into the cash flow machine.

Most noteworthy, the company managed to maintain its 30% adjusted EBITDA margins at higher operating levels, as new acquisitions have been accretive to the bottom line right in their first fiscal year, with annual net profit surging 22.7% higher to $1.29 per diluted share.

For the fourth quarter, the results followed a similar impressive pattern with revenue growing 27.4% year over year and diluted earnings per share up 26.3% from comparable quarter last year.

Should you buy Enghouse Systems stock?

Enghouse Systems is a strong free cash flow-generating firm, and its operations did just that by generating $118 million in adjusted free cash flow and signs are that the trend will persist for longer.

The company's growth strategy is primarily making strategic acquisitions from internally generatedcash flow, and it does this usually every year to power double-digit growth rates. As long as the freecash flow build-up is maintained, investors may continue to witness double-digit growth rates in the topline and stronger profitability per diluted share.

Double-digit growth that flows down to the bottom line is just awesome, and the market pays premium dollar for it. No wonder shares popped on Friday.

The company is making acquisitions in some of the best and well-sought-after premium market segments.

The recent accretive acquisition of a previously loss-making Vidyo, and turnaround efforts quickly turned the new subsidiary's margins around after restricting and management is investing heavily in R&D to bring better competition to segment leader **Zoom Video Communications**, which trades at staggering price-to-sales-per-share multiple of 28 times trailing 12-month revenue per share today.

Maybe it was time ENGH shares got some of that valuation premium as the recent acquisitions of Espial and Vidyo, and subsequent investments in the platforms create significant profitable competition to Zoom, while offering clients the choice between cloud-based and on-premise product offerings.

One more thing: the company is committed to increasing its well-covered dividend, as it has done so for the past 10 consecutive years, but I'm most impressed by the company's quick turnaround of its two big acquisitions, which were making losses for over 10 years before the transactions to become EBITDA positive in record time during the fourth quarter.

If the company's financial systems design can be so quick to turn around ailing acquisition targets into profitable subsidiaries in months, then this is good reason to have its stock in an investment portfolio.

Early investors who picked shares upon my contrarian buy recommendation in March this year may be smiling with potential 46% capital gain today.

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