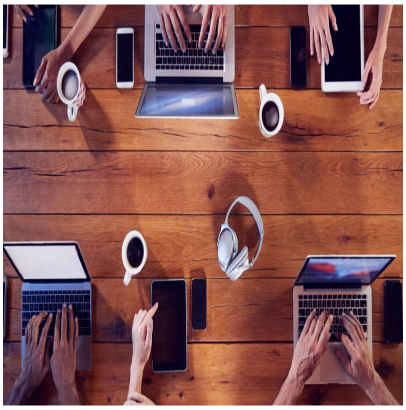

Why This Canadian Software Services Stock Could Move Higher in 2020

Description

There are companies that are workhorses. They know how their business runs; they have a plan, and they don't deviate from it. This doesn't mean they don't innovate. If they have to create, they do that. If they have to acquire other businesses, they do that as well. They do everything that is necessary for them to become a success story.

One such company is **Enghouse Systems** (TSX:ENGH) is a leading global provider of enterprise software solutions serving a variety of vertical markets. Its strategy is to build a more diverse enterprise software company through strategic acquisitions and managed growth within its business sectors, which include contact centre, networks (OSS/BSS), and transportation/public safety. Enghouse serves a number of distinct vertical markets through its three divisions: Enghouse Interactive, Enghouse Networks, and Enghouse Transportation.

Strong fiscal 2019 results

For the year ended October 31, 2019, Enghouse reported revenues of $385.8 million, an increase of $43 million, or 12.5%, from $342.8 million in 2018. Net income came in at $70.8 million compared to $57.7 million in 2018, and earnings per share increased to $1.30 from $1.06.

Revenue for the three months ended October 31, 2019, totaled $109.3 million — an increase of $23.5 million, or 27.4%, from the same period in the prior year.

Enghouse went on an acquisition spree in 2019, buying out Eptica, Espial Group, Vidyo, and ProOpti, deploying $101.2 million in the capital in the fiscal year. This expanded their global footprint in a number of regions including a larger presence in France, the Netherlands, and Japan.

Its latest acquisition was on January 6, 2020, when it announced its acquisition of New Jersey-based Dialogic Group for $52 million. Dialogic partners with leading mobile operators, system integrators, and technology developers to deploy its solutions via its worldwide network of offices. Dialogic's revenue over the next 12 months is forecast between $58 million and $63 million.

For three and 12 months ended October 31, 2019, cash flows from operating activities were $21.7 million and $81.4 million, respectively, compared to $24 million and $98.3 million in the same periods in the prior year. These decreases in operating cash flow were due to delinquent payables for Vidyo and Espial. The ultimate settlement of these liabilities reduced operating cash flows by approximately $30 million.

The verdict

Enghouse is a company that has proven itself over and over again. It has come out of the 2008-09 recession stronger. As Fool contributor Christopher Liew pointed out, an investment of $10,000 in Enghouse at the end of December 2009 produced a total return of 1,166% by year-end 2019. The windfall, including reinvestment of dividends, amounts to $126,648. That's a massive return by any standard. There's no reason to believe that Enghouse can't repeat its performance in the next decade.

The company has paid regular quarterly dividends since May 31, 2007, and has increased its quarterly dividend in each of the past 11 years from $0.013 per common share in 2007 to $0.11 per common share presently.

The company trades at $51.82. Analysts tracking the stock have given it an average price target of $56.80. That's upside of over 9.6%. This is a must-have stock for every growth portfolio.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:ENGH (Enghouse Systems Ltd.)

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