The Best Defensive Stock to Buy if You Have $2,000

Description

Defensive stocks are the safest place to [invest your money when stock markets are volatile](). In times like these, it is important to take a hard look at your portfolio and make sure you own the most resilient companies.

Frankly, the world is changing. Previously considered "defensive stocks" are no longer performing defensively. Stocks previously considered offensive, like technology stocks, have actually actually performed the best in this volatile environment.

Simply compare the performance of the **S&P/TSX Capped REIT Index** (REITs are generally considered very defensive) and the **S&P/TSX Capped Information Technology Index**. Year to date, the Technology Index is up 25% versus the REIT Index, which is down -22%.

Buy the "new" defensive stocks

The point is, society is shifting. Technology continues to play a greater role in society, business, and the economy. Therefore, one of the best ways to manage risks is to own a diversified portfolio. Still own some traditional "defensive, income-focused stocks" (REITs, utilities, and healthcare), but make sure to also have exposure to "defensive, technology stocks" that have operational strength and capacity to grow.

Get defensive: Buy this technology stock

If I had $2,000 to invest today, one defensive stock I would be thinking about is **Enghouse Systems** (TSX:ENG). It is one TSX stock that provides defence in an economic downturn and offence when the economy recovers. Enghouse is an enterprise software company that provides customer interaction services, network software, and transportation/logistics solutions.

Enghouse has a diversified business platform

This stock is attractive for a few reasons. First, it has a diversified and consistent business model. Its services are operationally essential for its clients. These clients are highly diverse and include the likes of telecoms, banks, utilities, healthcare, logistics, and public services and infrastructure.

Its businesses are also geographically diverse, spanning evenly across the U.S., Europe, the U.K., and Scandinavia. 58% of revenues are derived from hosting or maintenance services, so a large portion of revenue is very consistent and stable.

This defensive stock has a cash-rich balance sheet

Second, Enghouse has a very strong balance sheet. The company has no debt and is sitting on $116 million of cash. The cash provides safety, flexibility, and capacity to grow in and through crises. In the past, Enghouse has demonstrated prudent patience in acquiring SaaS businesses at value prices, and I think it will do the same in 2020.

Enghouse has a history of solid performance

Third, the company is just an all-around, strong, consistent performer. It had a strong 2020 first quarter, where it grew revenues, adjusted EBITDA, and earnings per share year over year by 29%, 34%, and 7.4%, respectively. It also increased its dividend by 22.7%. In fact, Enghouse has increased its dividend by +10% every year for the past 12 years!

For the past five years, Enghouse has grown revenue and profits by a CAGR of 7% and 10%, respectively. All this demonstrates the consistency of Enghouse's business and its ability to accrete long-term growth.

The Foolish bottom line

This defensive stock has performed well in 2020. Year to date, it is up 9% versus the TSX Index, which is down -13%. The stock has a trailing P/E of 42 and an EV/EBITDA of 23.

While that is not cheap, it is cheaper than its Canadian enterprise software peers. **Constellation Software** has a trailing P/E of 52 and an EV/EBITDA of 33. **Descartes Systems** has a trailing P/E of 95 and an EV/EBITDA of 31.

I would perhaps wait for the stock to pull back before deploying an entire position, but I think it is very good long-term buy. Put $2,000 into Enghouse stock, and you get a defensive, growing business, a strong cash position, and history and future of strong shareholder returns. That sounds pretty good to me!

CATEGORY

1. Coronavirus

2. Investing
3. Stocks for Beginners
4. Tech Stocks

TICKERS GLOBAL

1. TSX:ENGH (Enghouse Systems Ltd.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners
4. Tech Stocks

Date
2025/08/24
Date Created
2020/05/16
Author
robbybrown