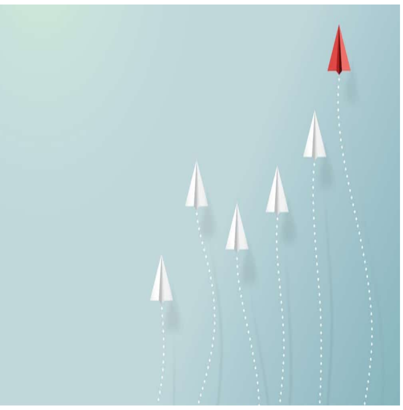

Earn 1,000% Returns in 10 Years With Enghouse (TSX:ENGH)

Description

One thing the 2009 financial crisis taught companies is the importance of having high liquidity and controlled debt. This year, the COVID-19 pandemic has disrupted the economy, but companies are better capitalized to handle the crisis than they were in 2009.

Moreover, the Canadian Revenue Agency (CRA) was fast to respond with immediate financial aid. Better preparedness helped the stock market recover quickly from March sell-off.

In this crisis, companies with high leverage and beaten-down sales would perish — and those with substantial cash and healthy sales would rise like a phoenix. While the short term will be volatile, things will normalize in the long term. In the next 10 years, the overall economy will grow, companies will expand, and the new normal will shift to a higher range.

How to find a stock that can generate strong returns in the long term

While essential services like utilities and grocery may seem like a good bet, they remain stable even in the long term because of their low-profit margins and high debt. For instance, **Loblaw** stock doubled in 10 years, while **AltaGas** stock rose 2% between 2010 and 2019. **TSX Composite Index** rose 48% during this time.

If you want to beat the market and have the most profitable 10 years, you need to identify the stocks that cater to future needs. The future is technology. Now, the task is to find technology companies that are less capital intensive, generate strong sales, and higher profit margins. **Enghouse Systems** (TSX:ENGH) meet all these requirements.

Enghouse growth	**1 year**	**5 years**	**10 years**
Stock Price	50%	82%	1010%
Revenue	13%	38%	310%

Three reasons why you should buy Enghouse

Enghouse earns money by acquiring software companies that serve four verticals, which are contact centres, telecom, transportation, and geographic information systems. With every new acquisition, it expands its recurring revenue from maintenance contracts and subscriptions.

Over the years, it has broadened its product portfolio and geographic outreach. It uses its vast sales team to cross-sell complementary products to existing customers and acquire new customers. It benefits from the economies of scale and operating synergies that acquisitions bring.

However, it also faces the risks that come with acquisitions. There are times when it may not find attractive deals or some acquisitions may not give desired returns.

However, these risks tend to be mitigating with time. In terms of acquisitions, the company keeps on increasing the percentage of its recurring revenue, thereby improving its profit margins and cash flows. Recurring revenue increases the visibility of future cash flows, giving the company time to prepare for any downturn.

Enghouse reinvests these cash flows to purchase new companies, which bring in more recurring revenue. Hence, it does not have significant long-term debt. As of April 30, it had $168 million in cash reserves and less than $1 million in long-term debt. This reinvestment cycle has a compounding impact on its returns.

The company's performance depends on the management's efficiency to identify good acquisition targets and maintain a balance in the number of deals. Overbuying could increase the company's leverage and reduce the returns from the acquisition.

Underbuying could slow the company's growth rate. Its return on invested capital improved from 15.5% in fiscal 2015 to 18.8% in fiscal 2019, indicating that the company's management has completed acquisitions efficiently.

Enghouse stock can give you 1,000% returns in 10 years

Enghouse benefitted from the pandemic as the demand for its video conferencing solutions jumped in the wake of a remote working trend. The stock rose 92% in the past year as its last 12 months revenue rose 33% YoY (year-over-year).

Even before the pandemic, the company had a healthy growth rate. Its stock rose by 1,000%, and its revenue increased by 300% between 2010 and 2019. The stock surged at an average annual rate of

27% while its revenue rose at an average annual rate of 15%. If you had invested $10,000 in June 2010, your money would have grown to more than $100,000.

Looking into the next 10 years, the number of new software companies has increased significantly. This will create more acquisition opportunities for Enghouse. Moreover, the company is diversifying into new verticals through more significant acquisitions.

The stock has the potential to grow by another 1,000% in the next 10 years. Even if you buy the stock at its high of $65, you will beat the market in the long term.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:ENGH (Enghouse Systems Ltd.)

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