This Top Growth Stock Is up 77% Since March: Is it Still a Buy?

Description

Enghouse Systems (TSX:ENGH) is a top growth stock that has been on a tear up the TSX this year. The stock is up 77% since March and up 27% year to date. Enghouse is no stranger to strong performance. In fact, over the past 10 years it has returned, including dividends, 32% on average. That is a 1,492% total return over the past 10 years!

Despite past all-star performance, this stock still has some major long-term upside. In fact, on Friday after the release of second-quarter results, the stock spiked almost 12% before settling with a gain just under 4% for the day.

This top growth stock is benefiting from the pandemic crisis

Revenues, net income, and adjusted EBITDA increased year over year by a stunning 58%, 63%, and 81%, respectively. During the quarter, Enghouse paid over $12 million of dividends and $48 million in acquisitions. Yet, it still added over $18 million to its total cash balance of $168 million.

Overall, Enghouse's revenues were boosted by strong demand for its remote computing applications as well as for its video-conferencing platform, Vidyo. Sales were particularly accelerated by a one-time licence sale from its newly acquired Dialogic business.

Despite strong growth, Enghouse's management were very hesitant to give any form of guidance for the rest of the year. Many of Enghouse's customers remain very cautious in this environment and are somewhat wary to fully deploy expenditure budgets.

As a result, investors need to be a little cautious here. Although this quarter was very strong, Enghouse may not be able to replicate this in the short term (i.e., the next few quarters). Management takes a very long-term approach to building the business, and there could be some lumpy quarters over the short term.

Investors should keep this in mind and invest in this growth stock with a very long-term mindset. Yet I still think this is a top TSX growth stock. Here are few reasons why I still like it.

Enghouse is a cash machine

Firstly, Enghouse is a cash-generating machine. It has no debt and has $168 million in cash. This is the type of company you want in an uncertain economic environment. Management still sees ample acquisition opportunities, particularly among smaller private technology/SaaS companies that have yet to produce positive cash flows. Right now, many of these companies may be cash strapped and are good buying opportunities for Enghouse.

Enghouse stock is equipped for long-term growth

Secondly, Enghouse, has a really attractive product mix for a post-COVID-19 world. In its interactive segment Vidyo has really strong potential. It serves a niche commercial client group (healthcare, financials, etc.) that require very secure conferencing (unlike applications like **Zoom** that are more catered to the public). I think with minimal marketing, Enghouse could easily expand this service to a broader clientele.

In addition, Enghouse has a wide range of essential customer interaction/centre services that play perfectly for the work-from-home, digital-working environment. I think demand in these segments remains very strong for this year.

In its networks portfolio, Enghouse has a range of products/services that will benefit from the roll-over to 5G and the transition to cloud-based IPTV. Enghouse is strongly positioned to assist networks and telcos in this transition. While it may take some time for these trends to roll-out, they should provide strong earnings tailwinds for many years to come.

Enghouse is not cheap, but it is a long-term buy

Overall, Enghouse is a top growth stock on the TSX. It is fairly expensive here, especially after just reaching new all-time highs on Friday. However, you are buying a company with a very good track record, a growing dividend, a strong balance sheet, and strong internal and external growth.

Considering the strength in this quarter, it may be difficult to replicate for the rest of the year. However, there is plenty of growth ahead for this stock, and I would take any pullback as great opportunity to get in!

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