TFSA Investors: 1 TSX Tech Stock to Buy for Wealth Creation

Description

There are many ways to create wealth today, including starting and owning a new business. That route will take all your time, require your entrepreneurial genius, and will be too risky a venture. But adding this TSX tech stock into a TFSA investment account could make you rich more easily instead.

What if you could buy a stake into a tried and tested, internationally established business with a proven track record of revenue growth, high-profit margins, and healthy cash flows?

Enghouse Systems (TSX:ENGH) stock offers all of the desirable investment attributes mentioned above. The Canadian tech growth stock could help compound your wealth in a Tax-Free Savings Account (TFSA). I remain bullish on the stock since my last recommendation in December 2019.

Why TFSA investors should buy Enghouse Systems's stock

TFSA investors should consider buying Enghouse Systems stock today, even during a period of elevated COVID-19 pandemic uncertainty. The company's business moats, growth strategy execution, and financial structure make it a prime investment target for growth-oriented investors.

It's an ever-growing business.

ENGH provides enterprise software solutions focusing on remote work, visual computing, and modern communications networks.

The company saw a growing demand for its products and services during the COVID-19 pandemic, as companies struggled to set up efficient and secure work-from-home solutions during lockdowns. Sales of solutions that support remote work, including Vidyo, the company's remote conferencing and telehealth/financial services video platform, and the company's remote computing solutions saw strong demand during the last quarter.

During the most recently closed fiscal second quarter to April 30, revenue grew by 58% year over year to $140.9 million. Gross margins expanded to 71.8% from 69.2% last year — the highest-ever reading in eight quarters. Operating income was 78.3% higher, and net income jumped 63.8% to $27.1 million.

An expansion in operating margins from 29.8% to 32.8% for the last quarter meant better cash flow generation for an already cash-rich business. Operating cash flows more than doubled during the past quarter to $57.5 million. Even better, the business reported its best-ever adjusted EBITDA margin of 35% during the most recent quarter.

A cash-rich business with a self-sustaining growth strategy

ENGH's healthy margins allow the company to generate positive cash flows every quarter. The company's cash and cash equivalents balances keep growing back up after acquisitions every year. Cash is of great importance to Enghouse Systems. It oils the TSX tech growth company's acquisitions-led growth strategy.

The company self-funds its cash acquisitions from internally generated funds. It buys up small tech firms at favourable valuations, and smoothly integrates them into the fold. Most acquisitions are accretive to operating earnings margins right at the onset, thanks to an experienced management team that knows how to tweak and transform formerly ailing new acquisitions into profitable entities in weeks.

A migration from one-time licence sales to recurring cloud-based revenue caused some turbulence in recent years. However, the company is enjoying organic growth now. New acquisitions also bring in new products into the company's portfolio, aiding organic growth.

Foolish bottom line

Enghouse Systems operates the kind of business that a growth-oriented investor would want to own. The company's growth strategy is internally funded, and there's minimal leverage risk on its balance sheet. There was an $839 thousand long-term loan balance on its $743 million balance sheet by April.

Shares in the TSX tech stock have risen over 45% so far this year. Perhaps the surge may scare new investors away due to valuation fears. However, businesses that remain resilient during economic crises are justifiably expensive to buy.

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