



Better Buy: Enghouse Systems (TSX:ENGH) or Descartes Systems (TSX:DSG)?

Description

The pandemic has forced people to work remotely and shop online. These structural shifts have increased the demand for products and services provided by the tech companies, such as **Enghouse Systems** ([TSX:ENGH](#)) and **Descartes Systems** ([TSX:DSG](#))([NASDAQ:DSGX](#)).

The increased demand has led to a surge in the stock prices of both companies. In this article, we will look at which among the two companies is a better buy right now.

Enghouse Systems

Enghouse Systems provides software solutions that facilitate remote working, improve customer experience, increase efficiency, and manage customer communications for its clients. With the increased number of people working and learning from their homes, the demand for the company's products and services has increased, driving its fundamentals.

The company reported impressive revenue growth of 53% in its [recently completed quarter](#). The acquisition of Dialogic, new offerings, and incremental maintenance on new license sales drove the company's revenue. Meanwhile, its adjusted EBITDA increased by 81.3%, driven by top-line growth and favorable mix.

The company focuses on both internal growth and acquisitions to drive its financials. In the first two-quarters of this fiscal, the company has spent \$48.2 million on acquisitions. Despite these acquisitions, the company's cash, cash equivalents, and investments stood at \$168.1 million at the end of the quarter. So, the company's liquidity position looks strong.

Meanwhile, with many businesses warming up to the idea of remote working, I believe the demand for Enghouse Systems's services to sustain. The company has returned 66.7% this year. Meanwhile, [the momentum in the company's stock price to continue](#), given the impressive growth prospects, improving margins, and a strong balance sheet.

Descartes Systems

Descartes Systems provides management software solutions, which focuses on improving productivity, performance, and security of logistics-intensive businesses. Amid the pandemic, not only big retailers, even the SMBs (small- and medium-scale businesses) have taken their shops online.

This shift has increased the complexities for logistic and supply-chain companies, such as quicker order-to-fulfillment time, pricing pressure, and flexibility in scheduling and rescheduling. Further, the end customers also want a real-time update on their consignments. Amid these increased needs, the demand for Descartes Systems's products and services has also increased.

In its recent quarter, the company's revenue grew 7.3% to \$83.7 million. Along with the revenue contributions from its acquisitions in the last four quarters, the growth in revenue from existing and new customers in subscription products drove the company's top-line. Meanwhile, the company's adjusted EBITDA margin also improved from 37% to 39%.

At the end of the quarter, the company had \$56.0 million of cash, with \$11.6 million contributed during the quarter. With its cash flows in the positive territory, the company's liquidity position looks stable. So far, this year, the company has returned 43.9%. However, I believe the rally to continue, given its strong growth prospects.

Currently, e-commerce sales still form a small percentage of total retail sales, indicating enormous growth potential in the e-commerce sector. So, the surge in e-commerce sales could act as a tailwind for the company in the long term.

Bottom line

Although both the companies offer impressive growth prospects, I would like to go with Enghouse Systems, given its strong track record and relatively cheaper valuation. Investors should note that Enghouse Systems has delivered impressive returns of over 1,500% in the last decade, easily outperforming the broader equity markets.

Currently, Enghouse Systems trades at a forward enterprise value-to-EBITDA multiple of 24 compared to Descartes Systems's 36.4. Thus, I believe Enghouse Systems is a better buy compared to Descartes Systems.

CATEGORY

1. Tech Stocks

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2. TSX:DSG (The Descartes Systems Group Inc)
3. TSX:ENGH (Enghouse Systems Ltd.)

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