Sale Is Here! Buy These 2 Stocks Till the Offer Lasts

Description

The pandemic year is coming to an end — and hopefully, the pandemic too. Just as investors resorted to selling in March when the pandemic struck, they did panic buying in November when the COVID-19 vaccine news came. While the vaccine is far from bringing an end to the pandemic, the panic buying showed how the stock market will move on vaccine uncertainties.

Many tech stocks that surged significantly in the pandemic rally dived on vaccine news, creating a pandemic sale, and it is only here for a short while.

The pandemic sale

The pandemic stock market rally began in April as the Justin Trudeau government gave out generous cash benefits to the tune of $2,000/month to Canadians who were out of work. People put their benefits money in the stocks of companies around them, giving rise to the tech stock rally, with **Shopify** and **Lightspeed POS** becoming some of the best-performing stocks of 2020. But they have rallied to a level where their lofty valuations have limited their upside.

The pandemic rally came to a standstill on September 2 as the government launched the second phase of the stimulus package. Tech stocks like **Enghouse Systems** (TSX:ENGH) and **Kinaxis** (TSX:KXS), which soared 120% and 150%, respectively, in the pandemic rally, declined 20% since September 2. This decline was driven by the vaccine news, which created a pandemic sale where good growth stocks are available at a discount.

The first lot of vaccine is now being administered to health workers, and cases of unexpected adverse reactions are showing up. The vaccine rollout and controlling the virus spread won't be as simple as it looks on papers. Many moving elements in the real world could impact its rollout. People may refuse to take the vaccine, or the virus may develop a new mutation rendering the vaccine ineffective.

These vaccine uncertainties will keep the work from home and e-commerce trend alive. Shopify and Lightspeed stocks have already returned to their highs on the back of the Santa Claus rally. But the other two stocks are still on the pandemic sale.

Enghouse stock

Enghouse Systems grows by acquiring software companies that complement its contact center, transportation, telecom, and geographic information systems businesses. The acquisition increases its recurring revenue stream from maintenance contracts and subscriptions of cloud-based services. At the same time, it allows the company to cross-sell existing products to new customers.

This year was good for Enghouse as its fiscal 2020 revenue surged 31% driven by strong demand for its Vidyo's video conferencing products. The work and learn from home culture is here to stay.

While Enghouse's fiscal 2021 revenue growth may not be as strong as 31%, it will be above its fiscal 2015-2019 revenue compound annual growth rate (CAGR) of 7%. Enghoue's adjusted EBITDA also surged 53% in fiscal 2020 and will stay above the 11% CAGR in fiscal 2021. The company is sharing its high profits with shareholders in the form of a $1.5 special dividend.

Enghouse will continue to grow by reinvesting its cash flow in acquiring new businesses.

Kinaxis stock

Kinaxis provides supply chain planning solutions to large organizations with complex supply chain operations. It earns money through subscriptions, which are calculated based on the size of the customer, the number of users, applications, and the number of licensed manufacturing, distribution, and inventory sites.

Most of its contracts are multi-year, which makes its revenue predictable. But Kinaxis is in the growth stage and relies heavily on new customer acquisition to increase its revenue.

The pandemic delayed contract renewals and new contracts. Hence, Kinaxis expects its revenue growth to slow to 15% this year from 27% last year. But it has the potential to grow as businesses return to work.

Investor takeaway

Stocks of Enghouse and Kinaxis surged more 256% and 990% between 2015 and 2019. If these stocks achieve even 50% of this growth in the coming five years, they can convert $20,000 in your Tax-Free Savings Account (TFSA) to $80,000.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:ENGH (Enghouse Systems Ltd.)
2. TSX:KXS (Kinaxis Inc.)

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Date
2025/08/20
Date Created
2020/12/21
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