$1,000 in This Underrated Tech Stock Would Be Worth $27,000 Today!

Description

Most tech stocks have delivered tremendous gains over the past decade. Some high flyers have doubled or tripled over the past 12 months alone. However, a severe correction in recent months has shaved most of these gains off. Many stocks are now trading for less than half their all-time high.

Growth investors with a longer time horizon would rather have stocks that grow steadily over decades and rarely *lose value*. These steady growers are rare and not as exciting but incredibly rewarding. One such steady growth tech stock is **Enghouse Systems** (TSX:ENGH).

$1,000 invested in Enghouse in late 2001 would have turned into $27,000 today — a compounded annual growth rate of 18%. That's a better performance than most tech stocks or a condo in Toronto over the same period.

Here's a closer look at this underrated gem.

Robust growth

Enghouse has been delivering market-beating growth for decades. The company has carved a niche for itself in providing enterprise-level software solutions to customers.

Enghouse offers software solutions for contact centres and remote customer service representatives. It also delivers a secure video communication platform for the FinTech and telehealth industries. As remote working becomes the new normal amid the pandemic, Enghouse remains well positioned to generate significant value.

Enghouse had a tremendous 2020, as revenues climbed 30% to $504 million, driven by strong demand for its software solutions. Adjusted earnings per share were up 51%. Enghouse also boasts of an impressive track record in generating free cash flow. This explains its dividend yield of about 1% when most companies are cutting back on payouts.

In addition, Enghouse has affirmed its commitment to accelerating growth through acquisitions. An aggressive acquisition strategy has seen it acquire companies with revenues in the range of $5 million to $50 million in recent years. These enhance the core platform, ultimately creating value for shareholders.

Tech stock correction

Enghouse stock is down by more than 20% from its all-time high. However, the stock has started recouping some of the losses, as it remains ripe for a turnaround backed by solid underlying fundamentals.

Valuation

While the stock is trading with a forward price-to-earnings (P/E) ratio of 30, it appears not cheap. That's fair value in an environment where some tech stocks are trading at 50 times *revenue.* Considering the company's steady growth and recurring revenue streams, I believe the stock could also be slightly undervalued at current levels.

While Enghouse has tanked significantly in recent weeks, it has started to rebound, as investors take note of its tremendous opportunities for growth backed by strong demand for its software solutions. This correction deepens the discount and should make the stock more attractive for long-term investors.

Bottom line

Enghouse is an underappreciated tech stock that's delivered respectable returns over the past two decades. It's currently trading at a fair valuation and could deliver steady returns for the foreseeable future. Consider it a growth stock at a reasonable price.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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vraisinghani