Why Enghouse Could Rally Big Time This Year

Description

Indeed, it was the tech sector that was leading the charge in 2020. However, this year, cyclical market sectors are on the move, driving market performance. Energy and financials are leading the way.

And as growth stocks are taking a breather, investors are increasingly wondering whether to dive into growth stocks right now.

That said, I think **Enghouse Systems** (TSX:ENGH) has the potential to rally from the company's recent selloff. Here's why.

Excellent diversification and business model

As a key purveyor of various software solutions enabling the work-from-home trend, Enghouse was one of the great beneficiaries of the pandemic. Of course, as the reopening trade has become more pronounced, Enghouse has sold off dramatically.

However, investors need to ask the question: will working from home truly fade away into the sunset? Or have our working arrangements changed permanently?

Enghouse is a futuristic company in many regards. Besides its business model, the company's global focus is what attracts many investors. Enghouse earns more than 90% of its revenues outside Canada. And the company's highly diverse product catalogue of software products provides a range of verticals for investors. This isn't simply a work-from-home play. Though, judging by the company's stock price, one would certainly think so.

The company's compounded capital over time via a series of accretive M&A deals. Organic growth has slowed of late. However, the company's 45% year-over-year increase in cash flows is attributed mainly to the company's M&A activity. For those bullish on growth stocks in the tech space, Enghouse appears to be an underrated company right now.

Healthy cash flows and a robust balance sheet

For tech stocks, cash flows are really what many investors care about. And on this basis, Enghouse appears to be a great pick relative to the broader tech sector.

The company currently trades around 16 times trailing cash flows. This is on top of a dividend yield of 1.2% that's growing. The company's dividend is well covered and is supported by a solid balance sheet.

The company has essentially no debt, due mainly to its strong cash flows. Any tech stock such as Enghouse that is paying out special dividends and returning value to shareholders such as Enghouse is rare. Accordingly, long-term investors would do well to buy the dip on this stock today, in my view.

The company's revenue growth of more than 30%, and EBITDA and EPS growth of 44% and 37%, respectively are strong. Really, there's not a lot with Enghouse to look at as a negative right now.

Those willing to battle some near-term uncertainty and volatility may do very well with this stock over the longer term.

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