1 Canadian Small-Cap Stock That Needs to Be on Your Radar

Description

Small-cap stocks may be key to outperforming the broader indices over the next decade and beyond. Undoubtedly, many investment legends are skeptical that the stock market can continue its incredible pace through the "Roaring 2020s." While the markets may stumble along the way en route to modest returns, investors don't have to settle. Indeed, by picking one's spots carefully, investors can outpace the broader **TSX Index** over an extended duration.

Of course, your odds of snagging a bargain are that much greater with a small-cap name. In the world of smaller-cap stocks, the degree of market inefficiency is that much higher. That means the market isn't nearly as accurate at pricing a stock at close to its true worth or its intrinsic value. On the flip side, smaller-cap stocks, like penny stocks, may be priced above and beyond their true worth, paving the way for disastrous results.

Indeed, the small-cap space is far more volatile and will not be everybody's cup of tea, especially retirees. In search of greater returns, though, I do believe that younger investors have a lot to gain by considering some of Canada's up-and-coming small- and mid-caps.

In this piece, we'll have a closer look at **Enghouse Systems** (TSX:ENGH), an exceptional high-tech company with a market cap of $3.1 billion at the time of writing.

Enghouse Systems: A tech firm fresh off a nasty 33% decline

Enghouse is an up-and-coming cloud company with a wide range of enterprise software solutions. Shares have fallen under considerable pressure of late, plunging over 33% peak to trough since June 2020 before bouncing back modestly to $56 and change, down just north of 27%.

The company, which has excelled in M&A, hit a major bump in the road. In the second-quarter conference call, management noted "elevated valuations" across the target market. Undoubtedly, valuations have become stretched almost everywhere these days. Just ask Warren Buffett or the managers at some other firms that have remained relatively quiet on the acquisition front of late.

Although investors may grow impatient in this tougher, frothier environment, I think management is worthy of a round of applause for not giving in to pressure to make more deals at potentially sub-optimal prices. As you may know, the act of acquiring in itself doesn't create value. If the price isn't right, it's tough to create any value via synergies.

Solid balance sheet, modest valuation

In any case, the balance sheet remains on solid footing. With a 1.4 times current ratio, the firm is highly liquid, with more than enough flexibility to move when opportunities arise whilst also returning capital to shareholders.

At 32.4 times earnings, 6.4 times sales, and 7.4 times book value, Enghouse seems pricey, but given its proven M&A strategy, I'd argue it's not nearly as expensive as it should be given its long-term growth trajectory.

In due time, Enghouse's urge to merge will pick up traction once there's more value to be had in the space. Until then, investors can hang onto their shares as the dividend looks to grow at an above-average rate over time.

My takeaway? Enghouse is a marvellous small-cap with a great dividend and a modest price tag after the latest drop.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ENGH (Enghouse Systems Ltd.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

PP NOTIFY USER

1. arosenberg
2. joefrenette

Category

1. Investing

Date
2025/07/21
Date Created
2021/08/03
Author
joefrenette