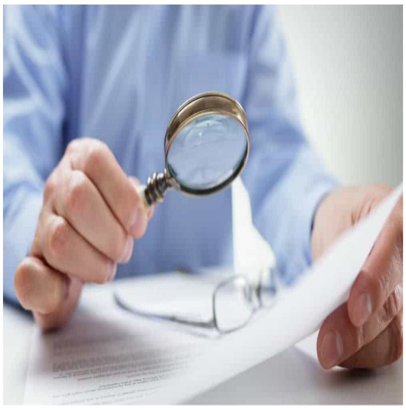

2 Cheap Stocks I'm Watching This Week as Potential Buys

Description

There are many cheap stocks on the stock market after the selloffs in certain areas. Investors should investigate and choose the best stocks that are suitable for their portfolios. Remember to size your positions and keep your portfolio diversified across different industries and market cap. Typically, smaller-cap stocks can grow faster than larger stocks. Here are two relatively small and cheap stocks that you should add to your buy list.

What a cheap tech stock!

Enghouse System (TSX:ENGH) is trading at its cheapest valuation in a while. There's a reason for it, though. Its fiscal 2021 results pale in comparison to its extraordinary results in fiscal 2020 that were helped by the boost in its Vidyo business because of increased demand in video conferencing during the pandemic.

The management remains disciplined in their M&A strategy, stopping at three acquisitions, which met their return-on-investment criteria, in fiscal 2021. Instead of forcing growth by paying for more in high-multiple tech firms, the tech stock decided to pay out a special dividend.

Even after paying $83.2 million as a special dividend (that was 11 times its regular dividend at the time) at the end of the last quarter, it still had a healthy level of cash, cash equivalents, and short-term investments, totaling $198.8 million. This cash is sufficient to pay about six years of its regular dividend.

How cheap is Enghouse stock?

The company just reported its fiscal Q4 and 2021 results on Thursday. Here are the key financial metrics for fiscal 2021 versus 2020:

- Revenue fell 7% to $467.2 million (but it's a 10% growth rate from fiscal 2019 to 2021).
- Net income fell 6% to $92.8 million (14% growth rate).

- Diluted earnings per share dropped 6% to $1.66 per share (13%).
- Adjusted EBITDA, a cash flow proxy, declined 5% to $168.5 million (21%).

The tech stock is unfairly punished this year, because of its outstanding results last year. Its growth can also be lumpy from year to year because of its disciplined acquisitions strategy. Consequently, the growth stock has corrected about 25% in the last 12 months.

Analysts think patient investors will be rewarded. One analyst may be biased. Four analysts have an average 12-month price target that suggests a potential of 42% near-term upside.

Notably, Enghouse stock yields 1.3% and has increased its dividend for 14 consecutive years with a five-year dividend-growth rate of 19%.

A cheap dividend stock for a juicy yield

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) is a cheap dividend stock in the utility space. It especially looks like a bargain after the recent run-ups of **Fortis** and **Emera**. A good portion of Algonquin's revenue (about 80%) comes from its regulated utilities. It has plenty of growth projects across its regulated utilities and renewable power portfolio, too. Its new capital plan for 2022 to 2026 consists of US$12.4 billion in investments.

At writing, it provides a high yield of close to 5%. Nine analysts have an average 12-month price target that suggests about 25% upside potential. In other words, they think the dividend stock is undervalued. Algonquin has increased its dividend for a decade with a 10-year dividend-growth rate of almost 10%.

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