Millennials: Retire Early With This Dividend Stock

Description

Although interest rates are expected to rise over the next few years, they are still at historically low levels. Millennial investors can still benefit greatly from investing in great stocks for the long haul. That is, it's still a good time to be a part-owner of great businesses by buying common stocks.

One dividend stock looks to be an excellent buy right now. The tech stock has been depressed severely partly because it experienced a strong rally during the pandemic in 2020. That year, its results were boosted by increased demand for its video product.

Chris Blumas just picked **Enghouse Systems** (TSX:ENGH) stock as one of his top picks on *BNN* in the last week.

> "The tech stock grows by organic growth and acquisitions. The demand for its video product spiked during COVID. Its video product is more of a niche product for call centres, rather than competing with the likes of **Zoom**. This demand has moderated, so revenue growth has been more challenging. Pandemic also squashed acquisitions, but this year looks better for those. Enghouse is sitting on excess cash, which gives it options. It's well-positioned for a choppy environment. Inexpensive valuation."
> *Chris Blumas, portfolio manager at Raymond James Investment Counsel*

The dividend stock is shareholder friendly

Don't mind Enghouse System's small dividend yield of about 1.56% today. It has a track record of increasing its regular quarterly dividend. Its regular dividend equates to an annualized payout of $0.64 per share right now. When it didn't find as many suitable acquisitions in 2020, it paid out excess cash in a special dividend of $1.50 per share instead in February 2021.

The tech stock has increased its dividend for 15 consecutive years with a five-year dividend-growth rate of 17.9%. This is a high growth rate that's thanks to the company's successful M&A strategy in the long run. Although this strategy can lead to lumpy results, it has provided great results for the long haul. According to Morningstar, the company's five-year return on invested capital was 18.7% versus the index's 12.5%. Additionally, Enghouse also gets market-beating returns on its assets. Its five-year return on assets is 12.6% versus the index's 6.5%.

The dividend stock's fiscal 2021 payout ratios were 39% based on earnings and 28% based on free cash flow. Therefore, it has plenty of room to increase its dividend going forward.

Importantly, the valuation compression of tech companies in recent months could provide better opportunities for its M&A activities this year, which can propel growth significantly.

The Foolish investor takeaway

According to Yahoo Finance, at $41 per share at writing, the dividend stock trades at a discount of 32% to the analyst consensus 12-month price target of $60.25. This represents near-term upside potential of about 47%!

You get a decent yield of about 1.56% to wait, which is much better than a lot of savings accounts out there. Although stocks are riskier investments, Enghouse stock is undervalued. The company will probably raise its dividend again soon when it reports its first-quarter fiscal 2022 results sometime in March.

This $2.3 billion market cap stock is a surer investment to early retirement for millennial investors than keeping long-term capital in cash-like investments.

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kayng