Why Enghouse Stock Crashed 11% on Friday

Description

Enghouse Systems (TSX:ENGH) shares fell by 11% and continued falling on Friday after reporting earnings that came in lower year over year.

What happened?

Enghouse stock announced its first-quarter results on Friday, with earnings coming in lower year over year. Revenue came in at $111.1 million, down from $119.1 million the year before. Net income was up to $21.6 million from $20.6 million in 2020. However, adjusted EBITDA fell to $38.6 million from $44.5 million — a 13% drop.

It's one of the first companies to really show that there could be losses after the strength that came from the influx of COVID-19. The demand on remote work proved good for Enghouse stock; however, that jump is likely to continue slowing, as there isn't the immediate demand there was in the past.

So what?

This leaves investors in Enghouse stock in a pickle. While demand is down, it's not gone. And furthermore, the tech sector in general continues to go through a period of negative impacts from a volatile market. That's all to say that Enghouse is likely far less in share price than it should be.

Analysts agree, pegging the target price at around $60 as of writing. That's almost double where Enghouse stock is right now. And despite the negative results, the company is still positive about the future. It managed to continue having solid cash on hand even after $8.9 million in dividend payments. Furthermore, it continues to use the volatile market to find opportunities for acquisitions.

Now what?

Investors in Enghouse stock could see the drop in share price as an opportunity to buy. But it's certainly not for the faint of heart. It's likely that the next year or two could be quite volatile for tech stocks in general, Enghouse included. Therefore, don't buy this thinking you're about to make that $60 per share in the near future.

That being said, you do, in fact, get an additional dividend of 1.6% as of writing. And it's one the company believes it can continue supporting for the near term at least. Furthermore, it's deep into oversold territory with a relative strength index of just 23.28 as of writing. So, it's a steal by any standards. The question is, when will it rise again?

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Author
alegatewolfe