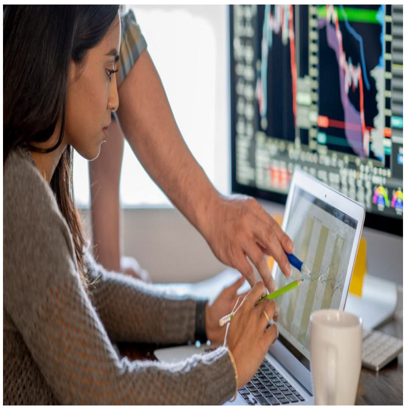

Why Did Enghouse Systems Stock Fall 13% on Friday?

Description

Enghouse Systems (TSX:ENGH) is a software and services company that was founded in 1984. The tech stock returns have been horrible recently, but it has delivered market-beating returns in the long run. So, it's worth an investigation, as it could be a bargain buy today!

What happened?

ENGH stock declined 13% last Friday after reporting results for its fiscal first-quarter (FYQ1) 2022 that ended January 31, 2022. Here are some highlights:

- Revenue dropped 7% year over year to $111.1 million
- Diluted earnings per share rose 5% to $0.39
- Adjusted EBITDA, a cash flow proxy, fell 13% to $38.6 million

Essentially, Enghouse System was a growth stock that depended on acquisitions for a big part of its growth. When meaningful acquisitions did not occur due to none that were suitable (right asset at right price), the lower profitability led to a substantial valuation contraction. The contrast was enlarged as the results during the pandemic were exuberant, which led to normalized results in fiscal 2021 (and probably later in fiscal 2022) to look "horrible" in comparison.

So what?

The earnings-per-share growth rate was 13.4% from fiscal 2019 to 2021, which is not bad. Since Enghouse Systems is an M&A company and a small-cap company, its growth is bound to be bumpy.

Management has been good at allocating capital and shareholder friendly. ENGH stock's five-year average return on assets and return on equity were 12.6% and 19.4%, respectively. The tech stock also pays a regularly growing dividend. And at times, it has paid out generous special dividends.

Even though the company results have been "poor" lately, it still raised its dividend by 15.6% this month, which should be reassuring to investors. This dividend hike is comparable to its five-year dividend-growth rate of 17.9%. The new annualized payout of $0.74 per share equates to a yield of 2.1%.

At the end of FYQ1, it had $210.9 million of cash and cash equivalents available, which was more than enough to cover its current liabilities.

Now what?

At the end of FYQ1, the company's debt-to-assets ratio was 32.6%. It's rightly not a highly leveraged company because of its more unpredictable growth strategy that relies heavily on acquisitions. Because of the tech stock's recent "poor" results, it now trades at its cheapest valuation since 2012. A return to higher growth would propel the tech stock much higher. A double of investors' money from current levels over the next three to five years is possible!

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