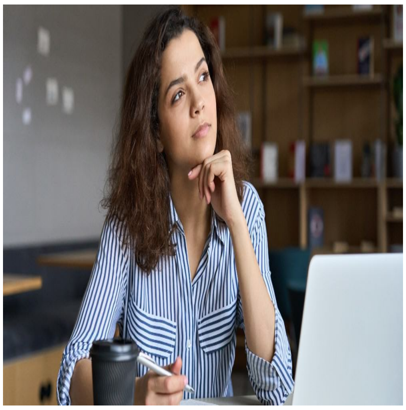

Why Enghouse Systems Stock Has Halved in 2022: Should You Buy?

Description

It's not an excellent time for growth investors. Tech stocks have been weak in 2022, which nobody imagined last year. One recent victim is **Enghouse Systems** (TSX:ENGH). The already weak markets brought a double whammy for Enghouse investors, as the company reported weaker-than-expected quarterly results. The stock tumbled 20% on June 8 on its poor quarterly performance, taking its YTD fall to 47%!

ENGH stock changed course last year!

Enghouse is a $1.5 billion company that provides enterprise software solutions. It focuses on contact centres, video communications, remote work, and communications for next-generation software-defined networks.

Its Interactive Management Group vertical takes care of the interaction software that enables services designed to facilitate remote work, enhance customer service, and increase efficiency. Another vertical, Asset Management Group, provides a fleet of software and services to network telecommunication providers, media etc.

For the recently reported quarter that ended on April 30, Enghouse reported total revenues of $106 million. That was a fall from $117 million in the same quarter last year. The management clarified that the increased competition hurt its top line in the recently reported quarter.

Poor revenue growth and margin contraction in FY Q2

Enghouse fell short of expectations on both revenues as well as on the earnings front. Its adjusted profit for the fiscal second quarter came in at $34 million compared to $40 million in the same quarter last year.

Enghouse Systems saw solid growth in the last few years, particularly amid the pandemic due to a surge in remote work. In the last 10 years, the company saw its revenues increase by 15% CAGR and earnings expand by 17% CAGR. Such solid growth translated into handsome shareholder value, with a stock returning 350% in the same period.

Its growth streak crumbled last year, and the stock has also been notably weak. In addition, the pressure on profit margins is also quite visible in the last two quarters. Thus, the stock might continue to see weakness in the short term.

However, interestingly, ENGH stock looks attractive from the valuation perspective. It is trading 15 times its forward earnings and looks undervalued against its historical average.

Tech stocks have been particularly weak this year amid valuation concerns, coupled with rapidly rising interest rates. Interest rates and growth stocks generally trade inversely to each other. That's why TSX tech stocks have corrected by almost 35% this year. Though there has been some recovery of late, tech names might not have a clear way up from here.

Bottom line

Enghouse Systems seems like a decent bet after its brutal correction in 2022. Its stable profitability and undervalued stock could create meaningful value in the long term. However, a close eye on its top-line growth for the next few quarters will be vital.

CATEGORY

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2. Tech Stocks

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