The TSX's Tech Sector Plunges and Widens Losses to 40.66%

Description

The strong performance of the technology sector in 2020 prevented the TSX from landing in negative territory. Its constituents collectively delivered an eye-popping 80.3% total return for the year. However, the sector has widened its year-to-date loss to 40.66% when the stock market recorded its second-worst day of 2022 on June 13, 2022.

Energy was the worst-performing sector (-30.8%) two years ago, but is now the best (+64.3%) among the 11 primary sectors year to date. Tech leaders like **Shopify** (-76.85%), **Lightspeed Commerce** (-49.24%), and **Nuvei** (-35.12%) could slide further due to aggressive rate hikes.

Far from the bottom

Across the border, the NASDAQ is off 30.91% from its year-end 2021 closing. **Amazon.com** (-37.92%) and **Apple** (-25.53%) continues to underperform amid the massive tech selloff. Some market analysts say that tech stocks are far from the bottom.

Ted Mortonson, a technology strategist at Robert W. Baird & Co., said, "I don't think we'll get to a bottom until the Fed absolutely annihilates inflation and can pause, but no one knows when that will be." Meanwhile, Ross Healy, chairman of Strategic Analysis Corporation and a portfolio manager at MacNicol & Associates Asset Management, thinks the downturn could lead to good buying opportunities.

Rare gems

Enghouse Systems (TSX:ENGH) and **Tecsys** (TSX:TCS) are rare gems, because it's seldom that you have dividend payers in the TSX's technology sector. However, both stocks face an acid test if their share prices continue to drop and recovery is in doubt. The former is down 48.47% year to date, while the latter is underperforming with -38.98%.

Enterprise oriented

Enghouse Systems provides enterprise software solutions focusing on remote work, visual computing and communications for next generation software defined networks. The two core business segments of the $1.37 billion company serve distinct vertical markets. This tech stock currently trades at $24.72 and pays a 2.98% dividend.

In Q2 fiscal 2022 (quarter ended April 30, 2022), revenue and net income dropped 9.4% and 13.5% versus Q2 fiscal 2021. Fortunately, Enghouse has zero external debt. Despite the declines in the top and bottom lines, the board of directors approved a 16% dividend hike from the prior year.

The threat to the business, especially to its Interactive Management Group, is increased competition from cloud solutions providers. According to management, the market shift towards the cloud is happening because more businesses are adopting work-from-home operating models.

Supply-chain solutions

Tecsys has a market capitalization of $466.59 million and its supply chain solutions equip borderless enterprises for business growth. In Q3 fiscal 2022 (quarter ended January 31, 2022), Software-as-a-Service (SaaS) revenue and annual recurring revenue (ARR) increased 49% and 17% versus Q3 fiscal 2021.

However, net profit fell 50% year over year to $0.9 million. On a year-to-date basis (three quarters), the drop versus the same period in fiscal 2021 was 63.5%, Still, management is happy with the 12th consecutive quarter of record revenue.

Management expects SaaS to be leading source of recurring revenue in the coming quarters. If you invest today, the share price is $32.04, while the dividend yield is 0.86%.

Rout will persist

The rout of tech stocks is likely to continue because of hot inflation and rising recession fears. Canadians anticipate a 75-basis-point increase in interest rates next month.

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