Is Enghouse Systems Stock a Buy After its Q3 Earnings Event?

Description

Shares of **Enghouse Systems** (TSX:ENGH) fell sharply by 10% to $29.61 per share on Friday last week — a day after releasing its third-quarter (Q3) results. It's a Markham-based tech company with a market cap of about $1.6 billion that primarily focuses on providing enterprise software and other tech solutions to improve customer interaction and network infrastructure. Before we discuss whether ENGH stock is worth buying after its recent earnings event, let's find out why investors reacted negatively to its Q3 financial results.

Why Enghouse Systems stock tanked after its Q3 earnings event

In the third quarter of its fiscal year 2022 (quarter ended in July), Enghouse Systems reported a 13.2% YoY (year-over-year) drop in its total revenue to $104.6 million. It's important to note that the Canadian tech firm makes a large portion of its revenue from the European market but reports its earnings in the Canadian dollar. That's why a recent weakness in European currencies against the Canadian dollar, driven by the Russian invasion of Ukraine, stole nearly $3.6 million from its top line last quarter.

While the sales of the cloud products from its interactive management group segment gained strength, its overall revenue from the segment fell. Enghouse's management blamed "a market shift from on-premise license — perpetual licensing towards Software-as-a-Service cloud offerings" for this weakness.

These negative factors also had a negative impact on Enghouse's bottom line, as its July quarter adjusted earnings slipped by 13.2% YoY to $0.33 per share. With this, the company missed analysts' consensus estimates by a narrow margin, triggering a sharp selloff in ENGH stock.

Focus on quality acquisitions continued

Despite facing several challenges last quarter, Enghouse Systems continued to focus on expansion strategy by making new quality acquisitions. In the July quarter, the tech firm completed two new acquisitions.

On June 23, it completed the acquisition of a Sweden-based SaaS (Software-as-a-Service) and on-premise contact centre and attendant console solutions provider Competella AB. The full integration of Competella's communication suite with **Microsoft** Teams is expected to expand Enghouse's offerings to and make them more attractive for new clients. Enghouse's Germany-based subsidiary also acquired the Austria-headquartered tech firm NTW Software on July 6. The deal aims to further expand Enghouse's existing console and contact centre business in Central Europe.

Is ENGH stock worth buying now?

Enghouse Systems is one of the most stable tech stocks in Canada. While ENGH stock has lost nearly 51% of its value since the end of 2019, it still has yielded 350% positive returns in the last 10 years. Geography-wise, its business is well diversified, as the company makes a large portion of its revenue from the United States, European countries, and the United Kingdom.

While industry-wide challenges and currency headwinds have affected its financial growth in recent quarters, its long-term growth outlook remains strong with its continued focus on positive cash flows and business expansion through new acquisitions. Given these positive factors, a recent dip in Enghouse stock could be an opportunity for long-term investors to buy this low-volatility tech stock at a bargain.

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jparashar