Just Released: The 5 Best Stocks to Buy in November 2022 [PREMIUM PICKS]

Description

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Best Buys Now

Enghouse Systems (TSX:ENGH)

Enghouse Systems (TSX:ENGH) provides enterprise software to a variety of industries, including contact centres, video communications and remote work specialists, and the public safety and transit markets.

It's been one of the best-returning growth stocks to own over the last decade or so, because of its steady cash flow growth. But the share price has been in reverse over the last two years, as acquisitions have slowed to a trickle, and cash flow growth has, too.

I have three reasons why I think the tide is about turn and Enghouse will return to its market-beating ways:

Reason #1: There are more deals to get done.

Higher interest rates have brought valuations down among public tech companies and have done the same in the private market. During Enghouse's last conference call, CEO Stephen Sadler commented that the acquisition pipeline is full, and valuations continue to get more attractive, as smaller software companies are finding it more difficult to raise cheap capital.

With $230 million in cash and no debt, Enghouse is in a great position to make deals. In truth, management would have liked to have done more deals all along, but valuations were outside of what they were willing to pay, and they'd rather wait than chase returns. So, we've seen just $42.1 million spent on acquiring companies over the last two years, which is well below the $146.5 million the company spent over the previous two years.

Reason #2: There's a return to stronger growth in call centre management.

Management at Enghouse is agnostic when it comes to the cloud. If customers want it, and they can make similar returns, they’re happy to make a cloud offering available. In its call centre business, Enghouse was initially slow to embrace the cloud and lost customers because of it. However, with a cloud offering now up and running, customer retention has returned to normal, and by allowing its implementation partners to sell cloud and on-premises offerings Enghouse is differentiating itself from competitors who won’t work with partners on cloud implementations.

Reason #3: Enghouse has been buying its own stock, which is abnormal.

The last time Enghouse found itself in this position was during the Great Financial Crisis in 2008 and 2009. The repurchases didn’t last long then, and the company was back to making deals in 2010.

Of course, interest rates could tick higher from here, and that might make shares of Enghouse a little cheaper. But that would very likely mean more buybacks at more attractive prices and bring more acquisition targets into its price range, too. From this price, I like the odds of Enghouse shares returning to their market-beating ways and think it’s a great time to buy.

Nathan Parmelee owns shares of Enghouse. The Motley Fool owns shares of Enghouse.

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