



## Enghouse Stock: A Diamond in the Rough Tech Market

### Description

For the first time since 2019, Canada's [technology sector](#) will not shine bright this year. With only one week of trading left, a decent finish in 2022 is remote. As of this writing, tech stocks are down 35.84% year to date against the 60.2%, 80.3%, and 18.3% gains in 2019, 2020, and 2021.

If you're looking for a great year-end buy, only **Enghouse Systems** ([TSX:ENGH](#)) is the diamond in the rough tech market. The stock also underperforms year to date (-24.54%), but the [chances of recovery](#) next year are high following the impressive financial results in the fourth quarter (Q4) and full-year fiscal 2022.

### Winning in turbulent markets

Enghouse Systems is an enterprise software solutions provider whose earnings-growth strategy focuses on internal growth and acquisitions. This \$1.97 billion company caters to contact centres, video communications, virtual healthcare, and telecommunications networks, and it also has clients in public safety and the transit market.

Management said it faced turbulent global markets in fiscal 2022, aggravated by rising interest rates, high inflation, and aggressive competition from vendors in the Software-as-a-Service (SaaS) sector. Nevertheless, Enghouse endured the challenges, as evidenced by the financial and operational results.

In the three and 12 months that ended October 31, 2022, revenue declined 4.5% and 8.5%, respectively, to \$108.1 million and \$427.6 million versus Q4 and full-year fiscal 2021. However, Enghouse has more than made up in the bottom lines. The net income in the same periods rose 22.4% and 1.8% year over year to \$36.9 million and \$94.5 million, respectively.

Enghouse had a \$129.7 million in positive operating income and \$145.1 million in cash flows from operating activities. Management said the results demonstrate the company's ability to generate positive operating cash flows, even during adverse economic conditions. It also augments cash reserves for acquisitions and further investments.

## Competitive advantages

For fiscal 2022, investments in research and development (R&D) for ongoing product improvements and innovation reached \$72.3 million. Enhouse's acquisition pipeline expansion and active pursuit of acquisition opportunities are likewise ongoing.

Recently acquired Competella, NTW, and VoicePort broadened the geographic reach and product portfolio. Enhouse's immediate concern is to continue expanding the availability of SaaS offerings globally. The demand primarily for customer experience and contact centre technologies is rapidly growing.

Meanwhile, offering customers and partners choice with various deployment options, whether private cloud, multi-tenanted cloud, or on-premise solutions, has been highly successful. It differentiates Enhouse in the vertically focused enterprise software markets while addressing varying customer needs.

## Rare find

Canadian tech stocks saved the TSX from disaster in 2020. Canada's primary stock market managed to post a 2.2% overall gain, because of the robust performance of the tech sector, led by **Shopify**. Unfortunately, high inflation and soaring interest rates in 2022 triggered a severe selloff in the growth-oriented market.

However, if you anticipate a tech rebound in 2023, Enhouse Systems Limited is the top choice right now. Besides the impressive revenue and income growths in fiscal 2022, it's also a Dividend Aristocrat — a rarity in the tech sector. The dividend-growth streak is 14 consecutive years, while the current dividend offer is a decent 2.14%.

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