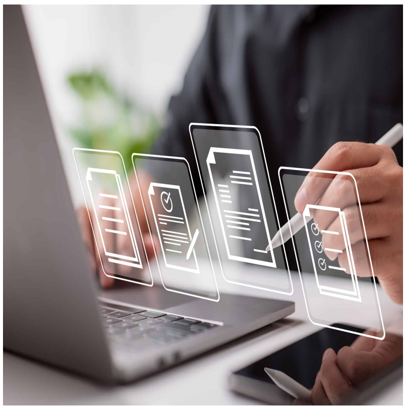

Why Enghouse Systems Is a Top Stock to Buy in 2023

Description

After steadily going up for two months, the Canadian stock market fell again in December. This was mainly because more people were worried that a recession was coming. The TSX Composite rose by about 11% between October and November. But in December, it lost about 5% of its value, which means it lost 8.5% in 2022.

In the short term, economic uncertainty may keep the stock market volatile, but the recent pullback in the market has made many fundamentally strong growth stocks look cheap enough to buy for the long term.

In this article, I'll talk about a Canadian growth stock that could do much better than the market over the next few years. Let's get started.

What Enghouse is doing

Enghouse Systems (TSX:ENGH) is an enterprise software company based in Markham that focuses on internal growth and acquisitions. This $1.9 billion company's primary goal is to give businesses worldwide vertical software solutions. Enghouse works with clients in public safety and transportation and call centres, video communications, virtual healthcare, and telecommunications networks. It gets money from many different places, but the United States, Europe, and Scandinavia are its biggest sales markets for 2022.

Enghouse Systems stock has underperformed in 2022 (-22%), but the chances of a comeback this year are high thanks to strong financial results in the fourth quarter and for the entire fiscal 2022 year.

Winning in volatile markets

Management predicted that rising interest rates, high inflation, and fierce competition from Software-as-a-Service (SaaS) vendors would make global markets even more unstable in fiscal 2022. Still, Enghouse continued through tough times, as shown by its financial and operational results.

Enghouse Systems' financial results for its fourth quarter of 2022, which ended in October, were much better than expected. During the quarter, the company made a total of $108.1 million in sales. This is 4% less than the same time last year but more than Bay Street predicted, which was $103.4 million.

Enghouse has more than made up for it in terms of profit. The company's adjusted quarterly earnings rose by 24.1% from the same time last year to $0.67 per share, which was more than 80% higher than the $0.37 per share that analysts forecasted.

The SaaS provider had cash flow from operations of $145.1 million and a positive operating income of $129.7 million. Management thinks that the results show that the company can generate positive operating cash flows even when the economy is bad. It also adds to the money that can be used for future acquisitions and investments.

Aside from the impressive growth in revenue and income in fiscal 2022, Enghouse is a Dividend Aristocrat, which is rare in the technology sector. The dividend has grown for 14 years in a row, and the dividend yield is a respectable 2.1%.

Enghouse has market advantages

In fiscal 2022, $72.3 million was spent on research and development (R&D) to improve products and develop new ones. Even though macroeconomic problems are worsening, the company is sticking to its strategy of making high-quality acquisitions in its field.

During its fiscal 2022, Enghouse bought Competella, NTW Software, and VoicePort. With the help of these new purchases, Enghouse Systems has been able to offer more products and reach more customers in more places. Enghouse's top priority is to keep making more SaaS services available worldwide. Customer experience and contact centre technologies are in high demand, and this demand is growing quickly.

Offering different deployment options for customers and partners, such as private cloud, multi-tenant cloud, and on-premise solutions, has been very successful. Enghouse stands out in enterprise software markets focusing on one vertical while meeting a wide range of customer needs.

If you think Canadian tech stocks will rise in 2023, Enghouse Systems is primed for growth.

Based on these growth efforts and the fact that more companies want its services, you can expect its financial growth to speed up even more in the coming years, taking this high-quality TSX stock to new heights.

CATEGORY

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