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4 Software Stocks Under the Radar

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Technology appears to be leading the way out of this recession, so investors may as well start learning about the promising companies in the tech industry.

I have a soft spot for software, since this is typically a highly scalable, high-margin business when companies get it right.

There are certainly plenty of established stores worthy of your investing dollar.

- **Microsoft** (Nasdaq: MSFT) is the world's largest software company, and excitement is building in anticipation of the release of its Windows 7 operating system later this month.
- **Oracle** (Nasdaq: ORCL) is the second-largest software empire (although it’s quickly joining the hardware ranks). CEO Larry Ellison is blunt and charismatic, and he can pack quite the appetite in acquiring smaller enterprise-software companies.

Let's aim lower. A lot lower. I've spent the past few weeks taking a look at more obscure opportunities among China, Internet, retail, and restaurant stocks. This week I'm going to delve into a few of the software specialists that Mr. Market appears to be ignoring.

You won't find any billion-dollar babies here. Although I will stick to companies with a market cap of at least $100 million, we also don't want to paddle too far into these uncharted waters.

Ready? Let's go.

ClickSoftware (Nasdaq: CKSW)
This is a growing provider of mobile workforce management and service optimization solutions. Revenue climbed 22% to $27.3 million through the first six months of 2009, with another $29 million in backlog and deferred revenue. In other words, the near-term visibility is encouraging.

The real buzz here is with ClickSoftware's bottom line. By keeping operating expenses and cost of revenue in check, most of the nearly $5 million in incremental revenue it earned versus last year has been trickling down to pad pretax profits. In short, ClickSoftware earned $0.18 a share through the first half of 2009. It squeezed out a profit of just $0.02 a share over the same six months of 2008.

The stock is trading at just 17 times the $0.37 a share that analysts predict ClickSoftware will earn this year. That's reasonable, but Wall Street's target is probably too low. The pros have badly underestimated the company's earnings power in each of the four previous quarters. I like that trend.

Ebix (Nasdaq: EBIX)
This insurance-software specialist has been on a tear since Karl Thiel recommended it to *Rule Breakers* subscribers during the summer of 2008. Ebix shares are trading 77% higher, and that's a considerably achievement when the S&P 500 has fallen by 21% during those same 15 months.

Ebix provides a platform for seamless data sharing in the insurance industry.

The scalable beauty of software is exemplified in the company's latest quarterly report. Revenue, operating profits, and net income grew 26%, 34%, and 41%, respectively. Investors love to see those numbers accelerating as they work their way down an income statement. The second-quarter results are even rosier if you adjust for currency translations.

Despite the heady stock gains over the past year, Ebix is still cheap for a recession-resilient company. Shares are fetching 18 times this year's projected profitability and only 15 times next year's net income target. That's insurance assurance.

China TransInfo (Nasdaq: CTFO)
Let's go to Beijing for our third radar dodger. China TransInfo provides information-system technologies for China's public-transportation industry.

It's a good place to be on many different levels. Ten of its transportation information products and applications were included in Beijing's most recent government procurement list. China isn't just the world's most populous nation: It's also one of the faster-growing economies. This bodes well for smart highways, electronic toll collections, and other infrastructure plays.

Wall Street sees China TransInfo earning $0.59 a share this year and $0.82 a share come 2010. That's a lot of growth for a stock fetching 13 times next year's earnings forecast.

Interactive Intelligence (Nasdaq: ININ)
This is another *Rule Breakers* recommendation that has been off to the races lately, more than doubling over the past year. Interactive Intelligence delivers solutions for contact-center automation, enterprise IP telephony, and business-process automation. It is improving on the annoying automated voice prompts you get when you call a service center by replacing hardware platforms with its software-driven solution.

Demand is there, much to the chagrin of hardware giants such as **Cisco** (Nasdaq: CSCO). Analysts see earnings growing by 34% this year and at half that clip in 2010. Interactive Intelligence has blown through Wall Street expectations in each of the three previous quarters, and that's another encouraging sign.

I'll be back next week with four "under the radar" stocks in a different industry. Which industry should I cover next? Let me know in the comment box below.

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