1 Top Tech Growth Stock to Closely Watch in May

Description

Since listing on the Toronto Stock Exchange in 2014, **Kinaxis Inc.'s** (TSX:KXS) stock price rally has been strong. It has sustained a 490% bullish run since June 14, 2014, to date and is currently trading near its 52-week high of $78.04, which was hit on April 11, 2017.

There could be some significant price movement on May 2, 2017, when the company reports its first-quarter financial results for 2017.

default watermark

Who is Kinaxis Inc?

The company is an esteemed provider of cloud-based subscription software that enables its customers, who are mainly very large global enterprises, to improve and accelerate analysis and decision-making across their supply-chain operations. Its core product, the RapidResponse, provides supply-chain planning and analytics capabilities.

Kinaxis's customers include companies in various industries, such as high technology and electronics, aerospace and defence, life sciences and pharmaceuticals, industrial, and automotive.

Potential for sustained stock price growth

There has been a sustained rapid growth in Kinaxis's top and bottom line in the past three years. Revenues for 2016 grew 27.04% to almost US$116 million after growing by 30% in 2015. The company's five-year compound annual growth rate (CAGR) in revenues has averaged almost 25%.

Analysts are expecting a further 23% revenue growth for 2017 to about US$145 million.

Earnings are growing strongly too. The consensus analyst opinion is for a sustained 21% long-term earnings-growth rate, which seems very much achievable after the company's earnings bounced back from a US$9.7 million loss in 2013 to record a $12 million net profit in 2015 and US$10.7 million in 2016.

Most noteworthy, the company has an 80% recurring revenue base that has been rapidly growing for the past five years. Its subscriptions book has grown at a CAGR of 27% per annum for the past three years.

In February 2017, there was news of **Bain & Company** establishing a partnership with Kinaxis as well as the coming on board of **AMD** to Kinaxis's client list. We could therefore see some improvement in Kinaxis's revenue heads in its May 2 earnings announcement.

What stands out for the company is its zero-debt status on the balance sheet. Some investors do like that unlevered profile. However, there could be some benefits to leverage for a profitable company, but it doesn't seem necessary for the company to borrow at the moment.

Nine out of 12 analysts give Kinaxis an outperform rating for 2017, two recommend it as a buy, and only one would like you to hold your Kinaxis position today — if you are invested already.

Threats to watch out for in May

Firstly, the company's personnel expenses spiked by 38% in 2016 — the biggest culprits being salaries and commissions. Could this be a signal of increasing staff-retention costs or ballooning client-acquisition expenses? Either way, its no good for the bottom line going forward.

default watermark

Secondly, the earnings-growth rate, though still high, seems to be slowing down, and the net profit margins are declining on a quarterly basis. This isn't a great sign for a high P/E multiple stock like Kinaxis.

The stock is currently trading at a trailing P/E of 130 times and a forward P/E of 64 times, considering a mean analyst forecast of US$0.92 earnings per share for 2017, which is double the US$0.44 earnings per share reported for 2016. This quarter's earnings should better show significant growth towards the double target.

Foolish bottom line

A long-term holding in Kinaxis is highly advisable, but the stock could be highly priced at the moment. Investors could wait for some price consolidation before going in. However, there could be a further rally if the May quarterly results come in strong. The consolidation might come at a much higher price point.

Most notably, there is a high concentration risk in Kinaxis revenues as the company's 10 largest customers accounted for approximately 47% of 2016 total revenues with one customer accounting for 12.3%. The loss of a single client could significantly affect the company's bottom line. Do take note of this fact.

Happy investing.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:KXS (Kinaxis Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

default watermark

Date
2025/07/21
Date Created
2017/04/18
Author
brianparadza

default watermark