This Fast-Growing Top Tech Giant Is in Price Consolidation: Buy the Dip?

Description

There have been some great price gains on **Kinaxis Inc.** (TSX:KXS) since the fast-growing tech giant reported its first quarter (Q1 2017) results. While I wasn't anticipating that much of a big move on the stock in April, when I wrote about the innovative company here, investors on this counter have seen double-digit gains on their long positions.

Kinaxis shares rallied from $76.57 on April 18 and went on to hit an all-time high of $91.98 at the end of May. That's a whopping 20% gain in just six weeks!

Sustaining the Kinaxis rally were the positive reinforcing quarterly performance results on May 2. Indeed, the company delivered, and the rally on its stock was a natural result.

There is some possible good news for bullish investors who wish to make a long-term investment on the stock.

The good news

Kinaxis's stock price is down today.

For investors who were waiting for a near-term price consolidation on the counter, the opportunity may have presented itself for you to grab the stock while it's cheaper today.

The stock has lost about 9.5% between June 2 and June 12.

The fundamentals on Kinaxis haven't shown any signs of weakness yet to justify a 10% devaluation. Rather, as the company's latest quarterly results show, Q1 2017 revenues at $32.5 million were up 20% compared to the same quarter in 2016. The 2017 annual subscription revenue growth was between 26% and 28%, and the company's reported adjusted earnings per share (EPS) of $0.23 beat the $0.21 consensus analyst estimates for the period.

Moreover, analysts have increased their Q2 2017 sales estimates from $35.06 million two months ago to $35.18 million currently. Just a month ago, analysts were anticipating $35.16 million sales for this quarter.

Although these analysts aren't prophets, they could be sensing the strong positives on this stock too. They have decided to increase their 2017 EPS estimates from $0.92 to $0.96 too.

Kinaxis's revenue-retention rate still held strong at 100% going into the second quarter of 2017, and the company's business model generated 80% in recurring revenues.

Unless there is sufficient evidence suggesting otherwise, the company is likely to meet its anticipated $140-144 million revenue target for 2017 and to achieve or surpass its estimated 27.4% long-term earnings-growth rate.

The risk

It could be early days to jump in to the stock right away as the price decline is very sharp. The price consolidation has just started and may continue for a few more days.

Worse still, it's not yet clear whether the price decline is just a result of profit taking or if it's a contagion effect from the current general drop in tech stock prices across North America.

Kinaxis's high trailing P/E ratio of 147 is still worrying. The recent sustained growth in operating expenses buoyed by increasing customer-acquisition costs and ballooning personnel and administration expenses are a reason to proceed with caution. The high price paid for a dollar of earnings may not be sustained in the future.

It's also important to note that the company's revenues are heavily concentrated with the top 10 customers contributing 49% to revenue; a single account produces about 12.1% of total revenues. The loss of one key client could have some severe consequences on your investment in this stock.

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