



Kinaxis Inc.: 1 Year Later, it's Still a Buy

Description

After the Bank of Canada raised the overnight rate by 50% to 0.75%, I thought it appropriate to revisit **Kinaxis Inc.** ([TSX:KXS](#)), a stock I recommended a year ago in part because it had no debt.

Today, the Ottawa-based cloud company is still [expensive](#) from a value investor's perspective, but it's a stock that I'm inclined to recommend once more, despite its 50% run since this time last year.

Here's why.

Debt isn't a bad thing when used correctly

Some people believe that leverage is a good thing when it comes to a company's capitalization; I'm not one of them. It's not that I'm against debt, mind you, but I've found that higher levels of debt, compounded by insufficient cash in the bank, leads to poor decisions during short-term crises.

When you have no debt and plenty in the bank, it's a lot easier to take your time contemplating an important decision. Whether you're the CEO of Kinaxis or an operator of a mom-and-pop convenience store, I believe the same rule applies.

What's happened to Kinaxis this past year?

The company has continued to grow the top and bottom line.

Its revenues for the first quarter ended March 31 were US\$32.5 million, 20% higher than a year earlier. As a cloud company, where subscription revenue is critical to success, Kinaxis was able to grow that segment of its business 29% in the second quarter. It now accounts for 73.5% of its overall revenue.

Kinaxis's RapidResponse product helps supply chain personnel adequately manage their operations. In today's 24/7 world, it's critical for multinational enterprises to stay on top of their supply chain requirements.

RapidResponse continues to gain traction through a combination of direct and indirect selling. It's 10

largest customers account for 49% of its revenue. Deloitte Consulting and Bain & Company are just two examples of customers leaning heavily on the company's products.

Interestingly, 80% of its annual subscription revenue is from customers in place at the beginning of a fiscal year with the remainder generated by new customers obtained during the year. It's a delicate balance between new and existing clients that, so far, it's been able to manage tremendously well.

On the bottom line, its adjusted profit (adds back share-based compensation) increased by 5.2% in the first quarter to US\$5.9 million. The company expects adjusted EBITDA to be at least US\$35 million in 2017 — 23% higher than in fiscal 2016 — with annual revenues of at least US\$140 million.

In 2016, Kinaxis went over US\$100 million in annual revenue for the first time, and it's not looking back.

Debt free and cash in the bank

As I said in the beginning, Kinaxis has no debt and lot of cash. It finished the first quarter with US\$142 million cash (7% of its market cap) in the bank, almost double the amount in the same quarter just two years earlier.

With a solid balance sheet and growth well into the future, it's no wonder that 11 out of the 13 analysts that cover its stock have "buy" recommendations.

I don't know if a 50% gain is in the cards over the next year, but I continue to see good things happening for Kinaxis and its stock over the next 12 months.

Kinaxis is still a buy in my opinion, despite trading at 14 times cash, about the same as **Facebook Inc.**

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