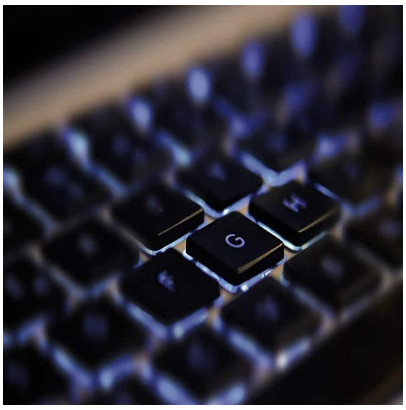

4 Reasons to Buy Kinaxis Inc.

Description

Kinaxis Inc. (TSX:KXS) is an Ottawa-based company that provides a global customer base with cutting-edge supply chain technology. On September 15, Kinaxis stock declined 4.68% to close at $73.47 for the day. Shares have increased 17.5% in 2017 and 19% year over year, but some questions linger after a second-quarter earnings report that came with a surprise has pushed the stock down 7.5%.

In spite of this, I still like Kinaxis as a long-term play for any growth-focused portfolio. Let's take a look at some reasons to be optimistic about its outlook.

Demand for supply chain technology

Globalization has forced companies to revolutionize supply chains and adapt to shifting demands and expectations. E-commerce and automation are changing the game. Automation will continue to reduce the amount of human labour that is required in logistics, and e-commerce has gone from a single-digit percentage share of retail business to almost a quarter in a few short years.

The demand for optimization in this business will become even more apparent as we move closer to the holiday season.

Impressive quarterly earnings

Kinaxis released two straight earnings in the first and second quarter that showed solid growth in revenues and gross profit. In the first quarter, revenue was up 20% and gross profit increased 17%. The company released its second-quarter results on August 8; revenue was up 14% and gross profit increased by the same margin.

Subscription revenue saw a 21% increase from Q2 2016, driven by new contracts and the expansion of existing relationships. Subscription revenue is expected to grow 21-23% for the remainder of the year, according to the company forecast. The company upped its cash and cash equivalents to $150.4 million compared to $127.9 million the second quarter of 2016.

The stock is undervalued after adjusting its forecast

Kinaxis stock took a substantial hit after the release of its second-quarter earnings. Shares dropped 16% on the same day due to an adjustment Kinaxis made to its 2017 forecast. The adjustment was made because of the lost revenue from an Asia-based customer that breached its contractual obligations. This caused revenue to be downgraded about $10 million for the year as well as a roughly 5% dip in subscription revenue.

Attractive potential for continued long-term growth

Kinaxis completed its initial public offering in June 2014. Since then, the stock has experienced growth of 465%. The stock reached an all-time high of $91.98 in 2017 before falling victim to a series of declines driven by the aforementioned forecast adjustment. A recent report showed that a company director had sold over $1 million worth of shares over the course of the September 8-11 trading days.

The company is an attractive tech stock that offers the opportunity for impressive growth. It is forecasting double-digit growth in revenue and subscriptions for the remainder of 2017 and improvement in cash flow.

Ignore the bad news and buy the dip at Kinaxis. This stock has the potential for big growth over the coming years.

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