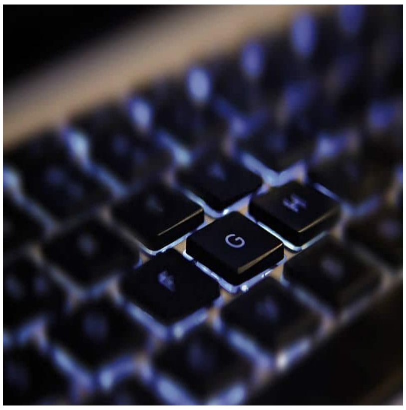

Will This High-Flying Tech Stock Soar to $100 by Christmas?

Description

Kinaxis Inc. (TSX:KXS) stock price fell 16% on August 8 after management revised revenue guidance down for the year by $10 million, albeit after reporting strong revenue and profitability growth for the second quarter of 2017.

Investor confidence in Kinaxis's sustained exponential growth was shaken by the downward revision in top-line growth for the year after management could not give clarity as to why the unnamed Asian customer failed to fulfill its contractual payments after Kinaxis had delivered on its part.

Could there be a near-term return of shareholder confidence in the stock before year-end?

A sustained rebound in Kinaxis's share price will depend on whether the supply chain software provider delivers the anticipated +20% year-on-year revenue growth and, most importantly, beats market expectations.

Kinaxis has made a significant change to its business model recently by allowing its go-to-market partners to collect more professional services revenue from closed deals.

The move gives a big incentive to the marketing partners who may become more motivated to generate more successful deals, and Kinaxis could easily rejuvenate its revenue growth rate.

However, this new growth will also come with reduced gross margins as a significant portion of the revenues generated will go to the partners in the new arrangement. The company's 70% historical gross margins could be unachievable going forward.

Most noteworthy, Kinaxis was ranked very high in the latest **Gartner Inc.** (NYSE:IT) survey rankings the Magic Quadrant, released in May 2017 for the sales and operations planning (S&OP) systems providers, where the rising tech company was placed among the leaders beside German software giant **SAP** and ahead of **Oracle.**

Kinaxis was found to have a very high ability to execute its very clear business vision.

I couldn't agree more.

Kinaxis's cloud based RapidResponse software system is finding favour with several large clients, hence the strong year-on-year growth figures since going public in 2014.

Gartner believes that Kinaxis's market understanding for S&OP is above average and that the buying intentions of its references will also be above average over the next two years, while Kinaxis's software offering has generated an above-average level of overall customer satisfaction.

Potential problems

Kinaxis's new sales and revenue-sharing model could still slow growth, as the company gives up a significant portion of its professional services revenue to its channel partners in search for accelerated growth in the software as a service (SAAS) subscription line

Professional services were an important source of growth for the firm. However, I give management the benefit of the doubt, since they believe that it is better to share this revenue with partners to increase the growth rate in the major SAAS subscription business line.

Furthermore, we still don't know why the Asian client failed to honour its end of the deal with Kinaxis last quarter, resulting in Kinaxis subsequently not recognizing revenue from this client for the quarter.

One could speculate that there could be a similar problem with another key client if the impasse had anything to do with potential overpromising and underdelivering by Kinaxis.

Asia has become an important growth area for Kinaxis, yet this is where the latest problem with a big client has cropped up — not a good thing for a growth stock.

Moreover, there has been a sequential quarter-on-quarter decline in Kinaxis's revenue from Canada with second-quarter revenue from Canada falling by 63% from the comparable quarter last year, yet Europe and Asia business grew by 30%.

It would be great Kinaxis could generate growth in its home country too, unless Canadian firms are not renewing their Kinaxis subscriptions, which could be another worrying development.

But I believe Canadian firms need supply chain and resource planning services, too.

Outlook

Investors could warm up to Kinaxis's stock again if it delivers growth beyond the recently revised guidance. The stock could soar to the $90 range before Christmas, but $100 may be too bullish a target.

However, the revised-lower growth outlook for 2017 has led to a downward revision of Kinaxis's high PE valuation multiple, which had gone up to 140 times. Such revisions could become sticky, unless Kinaxis pulls off a significant growth surprise in the next report and boosts market confidence once again.

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