Kinaxis Inc. vs. Computer Modelling Group Ltd.: Which Is the Better Buy?

Description

Today, let's take a look at a couple of tech companies to see which might be the better buy: **Kinaxis Inc.** (TSX:KXS) or **Computer Modelling Group Ltd.** (TSX:CMG)?

What Kinaxis does

Kinaxis, founded in Ottawa in 1984, provides cloud-based software in the supply chain management field. It is best known for its RapidResponse applications, which the company first introduced in 1995.

What CMG does

CMG, founded in Calgary in 1978, is a software technology company working in the oil and gas industry.

How are the stocks doing?

Kinaxis puts up some good numbers. When the company reported second-quarter earnings back in August, earnings per share were at U.S.$0.30, beating the consensus expectation of U.S.$0.23 per share. This was a 50% increase over 2016's second-quarter results.

CMG announced first-quarter 2018 results in August of $0.06 earnings per share. This was in line with analyst expectations but missed last year's first-quarter results by 33.33%.

Kinaxis has the better year-over-year revenue-growth number, but its net profit margin lags behind CMG and other industry leaders. Year-over-year revenue growth for Kinaxis sits at 27.04%, compared to CMG at -7.06%. Looking at the profit margin, CMG is currently doing better at 29.78% compared to Kinaxis's 10.35%. At the moment, CMG does a better job of turning investor dollars to profit, but Kinaxis has revenue trending in the right direction.

Over the last three years, Kinaxis's revenue growth has averaged 24% annually, a little behind the industry average of 26.05%. With CMG, revenue growth has largely been flat over the same period.

Kinaxis has a very high P/E ratio of 109.37, so the earnings for this stock don't come cheap. Kinaxis boasts a nice debt-to-net-equity ratio of 0.74, so the company has more equity than liabilities.

CMG has a much lower P/E ratio of 35.89 (which is still high). Its debt-to-net-equity ratio is also favourable at 0.61. Both companies do well at managing debt.

Finally, CMG offers a dividend currently yielding 3.98%. Kinaxis does not offer any dividend.

Investor takeaway

Both companies have some good numbers and numbers that could be better. While CMG has the better profit margin, its flat earnings are a concern. Kinaxis is currently trending much better in revenue, but its earnings aren't cheap to buy. If you are an income investor, only CMG offers a dividend, and it has a decent yield.

If you are looking to add a tech company to your Foolish portfolio, either company could work for you. It depends on whether you are more concerned with making current income or looking for a company with better revenue generation.

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