Is This Tech Stock a Good Buy?

Description

Canada's high-tech market is dwarfed by our neighbours to the south, but we do have some interesting stocks in this area. Today, let's look at **Descartes Systems Group Inc.** (TSX:DSG)(NASDAQ:DSGX) and see if it's a good buy.

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What does Descartes do?

Descartes, which shares the name of the celebrated mathematician and scientist, is headquartered in Canada's tech hub, Waterloo. The company specializes in logistics software that helps customers manage their shipments and related resources, including regulatory compliance and customs filings. The software also assists with inventory, transportation, and trade.

This is not a new business, so growth is slow but steady. The company has been growing its own client base and products, but it has also been busy with acquisitions. It has purchased three American companies this year, including ShipRush, which deals with shipping solutions, and it provides labels for companies such as **FedEx Corporation** and **UPS-United Parcel Services, Inc.** Descartes is a company actively looking to improve its client base and performance.

This is also a company with international exposure, if this is something you want in a stock.

Descartes by the numbers

Descartes last reported quarterly results on September 6. Adjusted earnings per share were US$0.09. This missed analyst expectation of US$0.10 per share, but the result beat 2016's second-quarter results by 12.50%. Over the last three years, earnings growth has averaged 27.78% annually. This is a nice number, but it lags behind the industry average of 40.85%. Look for third-quarter results to come out on November 29.

The company's net profit margin sits at 12.06%, which puts it about the middle of the pack compared to its peers. Its return-on-equity ratio is only 5.95% — well behind many of its peers, and below the 15-20% analysts usually like to see. Descartes could do a better job at turning investor dollars into profit.

The number that most concerns me is the stock's trailing P/E ratio, which sits at an absurdly high 87.39. This means investors are paying quite a premium for future earnings. This is an expensive stock. This doesn't mean it's a bad buy, but it is higher risk.

Bottom line

There is a lot to like about Descartes, especially its push to acquire and create new business. Its earnings are expensive right now, but it's been producing steady results. If you don't mind an expensive stock, this could be a good fit for your portfolio.

And if you are looking at other tech stocks to consider, check out this recent Fool article.

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1. Investing
2. Tech Stocks

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