Better Growth Stock in 2018: Kinaxis Inc. vs. Sierra Wireless, Inc.

Description

Canadian tech stocks were among the few bright spots on the S&P/TSX Index in the first half of 2017, as slumping oil and anxiety about Canadian housing dragged down energy and financials equities. However, a rally that began in late August has seen this trend reverse, and the TSX has climbed 5% since August 31.

Let's explore two tech stocks that have dipped in the second half of 2017 and determine whether or not investors will be able to depend on growth next year.

Kinaxis

Kinaxis Inc. (TSX:KXS) provides supply chain planning software to a global client base. Kinaxis stock has climbed 17.1% in 2017 as of close on December 1. However, shares have shed 20% from reaching a peak of $91.98 in late May. In an early October article, I'd discussed whether Kinaxis stock was going to retreat further after downgrading its annual forecast in the second quarter.

Kinaxis released its third-quarter results on November 1. Revenue was up 12% to $33.5 million, and subscription revenue increased 24% to $25.8 million. Gross profit jumped 16% to $23.8 million. The company maintained its guidance from the second quarter with revenue expected to total between $132 and $134 million for the full fiscal year compared to the first-quarter guidance of between $140 and $144 million. Annual subscription revenue is also forecast to grow between 22% and 23% compared to 26-28% projected in the first quarter.

The adjusted forecast was due to the loss of a significant Asia-based client after a breach of contract. In spite of this setback, Kinaxis appears positioned for solid growth heading into 2018. The stock has climbed 462% since making its debut on the TSX in June 2014. A fiercely competitive manufacturing sector is pushing more companies to improve supply chain visibility. Kinaxis helps its clients achieve end-to-end visibility to improve efficiency.

Sierra

Sierra Wireless, Inc. (TSX:SW)(NASDAQ:SWIR) is a wireless communications designer and manufacturer. Sierra Wireless stock has increased 32.6% in 2017. However, it has dipped 35% since reaching a high of $43.16 in early June. In a recent article, I'd covered Sierra Wireless and the impact of a poor second quarter.

Sierra Wireless released its third-quarter results on November 2. The company saw revenue rise 12.8% to $173.2 million compared to $153.6 million in Q3 2016. It also posted net earnings of $1.2 million, or $0.04 per share, in comparison to a net loss of $1.8 million, or $0.06 per share, in the prior year.

Last year, the investment research firm Zenith observed that the use of wireless devices had climbed from 40% in 2012 to 70% in 2016. This growth is expected to pick up well into the end of the decade.

Which is the better buy?

Both stocks offer attractive options for long-term growth. However, Sierra Wireless remains my top choice. The stock is trading almost $20 off its highs midway through 2017, and it has rebounded nicely in the third quarter.

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