Kinaxis Inc. Is the Better Growth Stock

Description

Fool.ca contributor Ambrose O'Callaghan discussed the merits of owning two growth stocks March 2: **Kinaxis Inc.** (TSX:KXS) or **Jamieson Wellness Inc.** (TSX:JWEL).

Neither stock has lit the world on fire so far in 2018. Kinaxis is up 14% through March 2, while Jamieson Wellness is 6% in the hole — hardly growth-stock material.

O'Callaghan concluded that both stocks have excellent growth prospects, although he seemed to favour Jamieson Wellness because of its dividend.

Let me save you the trouble of deciding which is the better growth stock — Kinaxis *is* by a country mile. Here's why.

Different markets

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Jamieson Wellness made its name selling vitamins, minerals, and supplements (VMS). It is Canada's number one brand by sales in the VMS market. In recent times, acquisitions have moved the company into sports nutrition through its Progressive, Precision, and Iron Vegan brands.

The company only went public last July at $15.75 a share; it hasn't even reported a year's worth of quarterly reports. As public companies go, it's a babe in the woods.

If you'd bought Jamieson Wellness shares in the IPO, you ought to be very happy with your 49% annualized return. Where it goes from here is the million-dollar question.

The company's outlook for 2018 suggests revenues will grow by 10% over 2017 to $330 million, while its adjusted EBITDA will rise by 11% to $68 million. Over at Kinaxis, it expects revenue to grow by 21% to US$161 million with adjusted EBITDA to be around US$40 million or flat to 2017.

At this point, you're probably wondering why I'm so enthusiastic about Kinaxis knowing that its revenue growth isn't much better than Jamieson Wellness's and that it's not going to grow adjusted EBITDA in 2018.

Let me borrow the words of **Canaccord Genuity Group Inc.** analyst Robert Young, who recently upgraded Kinaxis from "buy" to "hold," while also raising his 12-month target price to $96 from $75 — a 28% bump.

"The company's growing subscription revenue base acts as a predictable source of sales for the company, which we believe can continue to grow at 25% annually with a 25% EBITDA margin in the long term," wrote Young. "This is a premium combination."

FYI, if you're unfamiliar with Kinaxis, it sells supply-chain management software to company's like **Toyota Motor Corp. (ADR)**, which uses it to move its cars and trucks around the world efficiently.

You're nothing in business without top-notch logistics and supply-chain management. Kinaxis's Rapid Response provides its customers with greater confidence in this critical area.

Young believes the company's outlook for 2018 was very conservative, and I would agree, because Rapid Response is gaining traction outside North America, providing a longer runway for growth.

The bottom line on Kinaxis vs. Jamieson

Jamieson's IPO allowed it to repay almost $225 million in debt and other financial obligations, leaving it with $153 million still outstanding. To grow beyond the 11% annually, it will likely have to make further acquisitions, adding to the debt load.

Kinaxis, however, has no debt and has US$158 million in cash on hand and growing by the quarter.

Jamieson might have a 1.5% yield, but it won't grow nearly as much as Kinaxis over the next three to five years. Therefore, it's the better buy.

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