



Will This Growth Tech Stock Go for an Early Summer Run?

Description

Tech stocks have not done as well in 2018. Market commentators believe that growth stocks may soon be playing a back seat as value stocks lead for a while.

I don't think tech stock **Kinaxis Inc.** ([TSX:KXS](#)) will be relegated to the back seat anytime soon. My opinion is unchanged from [last](#) year. Just last week, fellow Fool contributor [Ambrose O'Callaghan](#) described a forecast report that predicts Kinaxis will have double-digit compound annual growth out to 2026. I can't imagine how a forecast could go out that many years, but this software company is strong; it helps others improve business efficiencies and transition to the cloud (what the company calls a "digital transformation journey").

Kinaxis made a splash at the Gartner Supply Chain Executive Conference that just wrapped up in Phoenix, Arizona. Its clients won awards for supply chain management; this bodes well and is basically free advertising directly to the business community, which needs to hear more about how to run supply chain more effectively.

This is a company with *zero* long-term and short-term debt, according to various sources. *Not even a library fine?* That I can't answer ... but the one liability on the books is deferred taxes. I assume Kinaxis has a good accountant making that play.

Regarding debt, it was hard to resist borrowing nearly free money while interest rates were so low. It says something that Kinaxis never invoked this easy-cash strategy. Kinaxis's growth plan did not require heavy bankrolling, which is a sign of prudence that I respect. In a sector where (costly) acquisitions are common, the no-borrowing *modus operandi* speaks volumes.

Free cash flow has been positive for the past 10 years. Given that the company generated revenue north of \$46 million in the most recent quarter, the free cash flow was actually fairly impressive — around \$7 million. Roughly speaking, over 15% of revenue turns into cash, which goes alongside the double-digit return on equity. It's impressive because the cash generation ratio is on par with the tech giant **Alphabet Inc.** ([NASDAQ:GOOG](#))([NASDAQ:GOOGL](#)), though Google's revenue is in a different league (\$31 billion), and it's not currently in the supply chain software business.

The need for supply chain solutions is not going away. Kinaxis has a business moat.

Now, here's one counter argument: price multiple!

Kinaxis's price-to-earnings ratio (P/E) is literally off the charts, above 50. But there is a silver lining that has been building since January. Like many tech stocks, Kinaxis's share price has been trading sideways, which is health restoring, as it will drive down the P/E. Although it is not likely to pull the P/E down much, as this would require sideways share prices for several earnings quarters, and that is just not likely.

Kinaxis's 200- and 50-day moving averages are \$77 and \$83 per share, while the current share price is nestled between at \$80. The intra-day trading is generally calm. Daily price swings are modest, between -1% to +1.3% for a typical day. In my opinion, now is a good time to pick this stock up if you are an investor willing to pay up for sustainable growth.

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