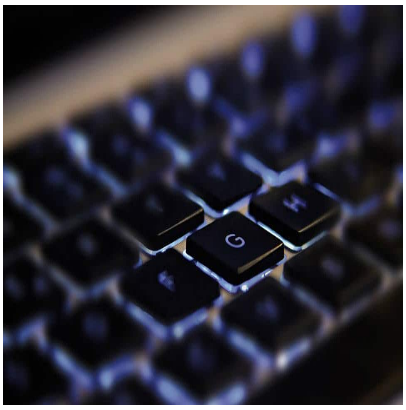

Has Kinaxis Inc. (TSX:KXS) Hit the Wall?

Description

Generally, I don't pay attention to what investment professionals have to say about a stock, but a June article about **Kinaxis Inc.** (TSX:KXS), a tech company I've been very positive about in the past year, definitely caught my attention.

AGF Management Limited portfolio manager Peter Imhof suggested Kinaxis stock was overvalued at 70 times its forward earnings, despite the fact software-as-a-service stocks are booming in both the U.S. and Canada.

"It's been a really good story and I really like the management team," Imhof stated June 14. "They have a lot of great reference customers, and I think that's how they continue to grow. It's just that the multiple for me to re-enter it right now is a little bit high."

There's no arguing with the fact Kinaxis stock isn't cheap, but when you've got strong recurring revenue from quality customers like **Toyota Motor Corp.**, it's hard not to get excited about the future and a triple-digit stock price.

Very much in growth mode

I first recommended Kinaxis to Fool readers in July 2016 when it was trading around $53. Although I knew value investors wouldn't be interested and growth-at-a-reasonable-price investors also probably wouldn't like it, I felt that the company would grow into its valuation.

Fast forward to today, and you have a company with a similar multiple but higher revenues and profits. In the past two fiscal years, Kinaxis has grown its revenues by 46%, while operating profits have been up and down going from $23.8 million in 2015 to $17.9 million in 2016 and back higher in 2017 to $26.7 million.

To a certain extent, you've got to expect that from a company that's still very much in growth mode, but for anyone who's not used to investing in these kinds of stocks, the volatility in earnings can be alarming, especially at these nosebleed multiples.

Like I said in 2016, if you're not prepared to suffer the ups and downs of a company experiencing growing pains, Kinaxis is definitely not the stock for you.

Has it hit a wall?

There's no question Kinaxis stock has come a long way since its IPO in June 2014 at $13 a share. In 2015, it gained 154%; it gained 33% in 2016; it gained 23% in 2017; and it's up 16% year to date through July 12.

Combine the fact that it hasn't had a losing year since going public with the exceptionally rich valuation of 70 times forward earnings, and it's only sensible to be asking if its stock has hit a wall.

In late June, Fool contributor Ambrose O'Callaghan provided investors with a couple of reasons why Kinaxis stock is still attractive.

The first has to do with the problems a Trump-induced trade war will have on the supply chains of North American companies — something that puts Kinaxis's RapidResponse software solution in the catbird seat for generating new customers.

The second is the contract it signed in June with Ipsen, a global pharmaceutical company, which sees Kinaxis managing the company's global supply chain. It's big news because it illustrates how well Kinaxis software transitions between industries and sectors. If it's going to grow beyond its current size, it needs to broaden the company's reach. This deal with Ipsen will help it do just that.

Long term, I believe Kinaxis will move into triple digits, but not without a bit of a roller-coaster ride over the next 12 months.

The bottom line on Kinaxis

I see Kinaxis hitting a bit of a wall after so much appreciation over the past four years, so I wouldn't be buying if you want profits now.

However, as I stated in March while comparing it to **Jamieson Wellness Inc.**, another strong TSX IPO, Kinaxis is going to grow substantially over the next three to five years to the point where 70 times forward earnings will be quickly absorbed by the growing revenues and earnings.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:TM (Toyota Motor Corporation)
2. TSX:KXS (Kinaxis Inc.)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/06/29
Date Created
2018/07/14
Author
washworth