Better Buy for Your TFSA in August: Shopify (TSX:SHOP) Stock or Kinaxis (TSX:KXS) Stock?

Description

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Coming into 2018, the Canadian technology sector remained somewhat sparse compared to the options south of the border. Today, we are going to look at two of the most highly touted tech stocks on the TSX. For investors on the hunt for growth, both of these stocks have soared since initial public offerings that have occurred inside the last five years.

TFSA investors who bet early on either one of these stocks have benefitted from tremendous tax-free capital gains. Which is the better buy today? Let’s take a look.

Kinaxis (TSX:KXS)

Kinaxis is an Ottawa-based company that provides software solutions for sales and operations planning. Shares are up over 600% since its initial public offering in June 2014. The stock is also up 20.6% in 2018 as of close on August 3.

Back in June, I’d discussed why Kinaxis remained one of my top options in the tech sector. One of these factors was the strain that modern companies are facing in modernizing and improving supply chains, especially as some key trade relationships have been thrown into flux in recent years. In the second quarter, Kinaxis launched its “Self-Healing Supply Chain” application, which applies advanced machine-learning algorithms to detect supply chain design gaps in an effort to improve performance.

Kinaxis released its second-quarter results on August 2. Prior to IFRS standards, Kinaxis posted revenue growth of 22% year over year to $40 million as subscription services saw a 24% rise to $30.1 million. Gross profit rose 20% to $27.5 million, while adjusted EBITDA climbed 12% to $10.7 million. Kinaxis reported record revenue in Europe, where the company has seen solid growth in Consumer Packaged Goods, Automotive, and Life Sciences sectors.

Shopify (TSX:SHOP)(NYSE:SHOP)

Shopify stock has increased over 420% since its initial public offering in May 2015. The stock has climbed 44.8% in 2018 so far but has also experienced volatility since the early spring. Back in May, I’d warned investors to exercise caution in looking for entry points as Shopify has become the target of short sellers since a Citron newsletter called its business model into question in October 2017.

Shopify released its second-quarter results on July 31. Shares plunged with traders reacting poorly to what was viewed as tepid guidance. Total revenue rose 62% year over year to $245 million, and Shopify reported a net loss of $24 million, or $0.23 per share. Adjusted net income rose to $2.5 million compared to an adjusted net loss of $1.1 million in Q2 2017.

For the full year 2018, Shopify projected revenues in the range of $1.015-$1.025 billion. It also forecasted an operating loss between $40 million and $42 million. There is also concern that merchant growth is dwindling and could threaten its outlook going forward. This was one of the warnings of short seller Andrew Left when he took the first shots at Shopify last year.

Which is the better buy?

Kinaxis stock is the more attractive addition at this stage for the reasons listed above. Shopify stock has the potential to yo-yo back near all-time highs, but the company is facing new challenges that could threaten the growth trajectory shares have set since its IPO.

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Date

2025/06/30
Date Created
2018/08/07
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