Kinaxis (TSX:KXS) Stock: Next Stop $50 or $150?

Description

In my most recent article about **Kinaxis** (TSX:KXS), one of Canada's tech darlings — otherwise known as the DOCKS — I wondered if its stock had hit the wall.

"**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 [SaaS] stocks are booming in both the U.S. and Canada," I wrote July 14.

I argued that although its stock is expensive, it's got a client roster that screams quality. That's hard to put a price on.

At the time, it was up 16% year to date. In the seven weeks since, it's tacked on another 9%. If it keeps up this pace, Kinaxis will deliver its fourth consecutive 20%-plus gain since going public.

It's impressive.

I ultimately concluded that it had hit a bit of a wall. However, because of its growth, I thought the multiple would decline as earnings growth caught up to revenue growth.

Second-quarter delights

Kinaxis released its second-quarter results August 2, and they were solid.

On the top line, revenues grew by 18.5% to US$39.0 million with recurring revenue (the best there is) up 20.3% to US$29.1 million. On the bottom line, its adjusted EBITDA increased 16.7% during the quarter to US$11.2 million — a margin of 28.7% and 50 basis points lower than in the same quarter a year earlier. That's not a big deal, given the revenues were up by almost 20%.

Fool contributor Brian Paradza did a good job highlighting why a couple of accounting changes should improve the company's bottom line in the future. Specifically, marketing expenses related to acquiring customers can now be capitalized over the life of a contract (typically six years) instead of being expensed immediately.

That's excellent news for investors.

$50 or $150?

As Brian stated in his article, Kinaxis's growth engine is alive and well, and that should continue to push its stock price higher. I would tend to agree. Here's why.

Kinaxis's Rapid Response SaaS-based supply-chain management solution currently has 100 customers, including **Toyota**. It has 2,000 potential customers in the markets it serves presently and another 3,000 if it broadens its horizons. It's participating in a US$4.4 billion market, yet its annual revenues are projected to be US$154 million in fiscal 2018, just 3.5% of the potential pie.

Further, when you consider that the newer clients it's securing are generating 65% of its annual subscription revenue growth, there's a good chance that its projected subscription revenue growth of 23-26% in fiscal 2018 will be even higher in 2019 and beyond.

"As of June 30, 2018, the total backlog of subscription services commitments was $198.7 million, up from $192.6 million in the first quarter," stated CFO Richard Monkman in its Q2 2018 conference call. "Of the current period amount, $50.3 million will be recognized in the remaining two quarters of 2018; $79.7 million will be recognized in fiscal 2019; and the remaining $68.8 million, fiscal 2020 and thereafter."

The point is the company has barely scratched the service when it comes to the world of supply-chain management.

With a five-point growth strategy in place that includes penetrating new vertical markets and channels of distribution, the sky is the limit for Kinaxis.

So, unless there's a serious slowdown in the global economy over the next 12 months, I would think the odds of hitting $150 are much better than hitting $50.

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