Which Tech Stock Should You Buy Now?

Description

As the market chaos continues, especially in regards to tech stocks, it is starting to get tempting to get into some of the names that have been on the buy list for some time. Companies like **Alphabet** and **Amazon.com** are looking a lot more attractive than they were a few months ago. Even our home-grown Canadian tech such as **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Kinaxis** (TSX:KXS) are much more attractive than they were in the recent months.

Before buying shares of these companies, though, investors need to ask themselves whether it is a good time to buy or if these shares are still expensive. If they are still overpriced relative to their growth, the trend may not be in your favour, and these companies could continue to move downwards. So, is the value and growth of these Canadian tech companies at the current price worth taking the leap?

Both Shopify and Kinaxis are most definitely still in the midst of a growth cycle. For Kinaxis, revenue grew 18% over the previous year and adjusted EBITDA grew 14%.

These are not slow-growth numbers. Shopify's revenue growth was even more impressive, growing 58% over the same quarter a year before. However, the company still has negative earnings, which makes it appear to be more of a speculative stock than Kinaxis.

Should you buy these stocks today?

Of the two companies, Shopify appears to be the riskier bet. While it certainly has a faster growth rate, there are a few issues that seem to make it more fragile. The first is the fact that it still does not have much in the way of earnings. While revenue growth is nice, solid earnings would be a definite plus. Kinaxis, however, has pretty solid free cash flow and earnings already underway.

Another danger is the fact that Shopify stock has not fallen as hard as Kinaxis. Kinaxis, while still expensive, has already experienced a significant drop in its share price. Shopify has not yet moved down significantly enough to make it more attractive than Kinaxis. If it were to move downward into the low hundreds, it might be worth beginning to build a position.

The final issue is share count. While Kinaxis has kept its share count relatively steady over the years, Shopify has issued shares to a much larger degree. As a business strategy, selling more shares at a lofty valuation is a good way to get quick cash.

The problem is that I believe that growth should ideally be funded by a company’s free cash flow, so using shares as currency is dilutive to shareholders. For this reason, Kinaxis is preferable to Shopify.

The bottom line

Let’s be clear: both Kinaxis and Shopify are good companies experiencing excellent growth. At the current prices, though, Kinaxis is the clear choice of the two technology companies. It simply has more established earnings and a more stable share count. It also has already experienced a significant move downwards, making the downside risk much less than that of Shopify.

No matter which company you decide to buy, though, remember to build your position gradually. Both of these stocks may experience more downside, so add to your position if they continue to move down over time.

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1. Investing
2. Tech Stocks

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:KXS (Kinaxis Inc.)
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