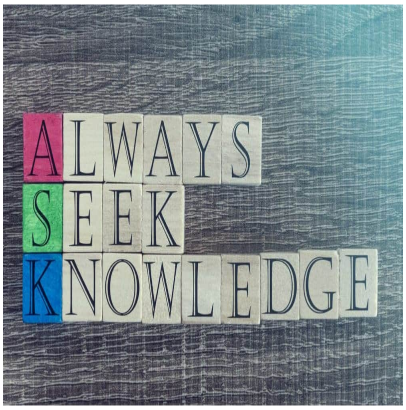

Better Buy: Shopify (TSX:SHOP) or Kinaxis' (TSX:KXS) Stock?

Description

Tech stocks have suffered significant drops over the past two months. In the past quarter, the TSX Technology Index has lost almost 10% of its value underperforming the broader TSX Index for the first time in years. Now that valuations have come down, it may be time to jump into the sector.

With that in mind, which is the better stock to buy? **Shopify** (TSX:SHOP)(NYSE:SHOP) or **Kinaxis** (TSX:KXS)?

Top performing stock

Looking back, both companies have performed admirably since their respective IPOs. Kinaxis shareholders have enjoyed a 125% return in under five years, for an average annual return of approximately 28%. Although this isn't cause for disappointment, Shopify shareholders have enjoyed much greater returns. Since its IPO in 2015, Shopify has returned a whopping 402% for a compound annual growth rate (CAGR) of approximately 115%!

In 2018, this outperformance has magnified. Year-to-date, Kinaxis share price has plunged approximately 14%, while Shopify has posted a 33% gain. Shopify is ranked fourth among all mid-cap stocks on the TSX and is the top performing tech stock.

Edge: Kinaxis' recent performance has held it back. Shopify has continued to perform despite macro-headwinds and is the clear winner.

Top growth stock

Investors who are interested in these two stocks aren't buying it for income. These are growth stocks through-and-through. As such, historical and expected growth rates are important factors to consider.

Over the past four years, Kinaxis has grown revenue by 29% on average. Likewise, earnings wereonce negative but Kinaxis has been turning a profit since 2015. Earnings per share grew from $0.50 in2015 to $0.77 in 2017. Unfortunately, the company's growth has been slowing. In the third quarter,Kinaxis posted single-digit sales growth. This is significantly below historical averages and was notenough to justify its current valuation, hence the 20%+ drop post earnings.

On the other hand, Shopify is still a high-growth machine. Since 2013, the company has grown revenues by approximately 185% on average. Although the company will not achieve that type of growth rate moving forward, it's still expected to grow revenue by more than 40% next year. This is double that of Kinaxis' expected revenue growth rate.

The only drawback for Shopify is that it hasn't yet been profitable. That said, the company is expected to start turning a profit next year.

Edge: Slowing growth is a concern for Kinaxis and it is starting to miss growth estimates. Shopify on the other hand, continues to perform and has beat growth estimates in every quarter since its IPO.

Best valued stock

Kinaxis has plummeted almost 30% over the past month. Does this mean it provides good value? Not necessarily. The company is trading at a price-to-earnings (P/E) ratio of 102.38, a price-to-sales (P/S) ratio of 11.61 and a forward P/E of 51.59 which are all above industry averages. Likewise, its P/E to growth (PEG) ratio is 6.01 which implies that its share price has gotten ahead of its expected growth rates. Kinaxis isn't cheap.

Similarly, neither is Shopify. In fact, Shopify is even more expensive with a forward P/E of 240, a P/S ratio of 19.75 and a PEG ratio of 6.91.

Edge: As of writing, Kinaxis provides better value. However, neither stock is what I would consider cheap. Even based on expected growth rates.

Winner: Shopify

Kinaxis may provide slightly better value, but Shopify has proven far more reliable. Likewise, Shopify is still growing at an impressive clip and as such, its high valuation is more justified than that of Kinaxis.

Make no mistake however, although the stocks have weakened, they are still trading at very high multiples. This is a play on the future and my bet is on Shopify.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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2. TSX:KXS (Kinaxis Inc.)
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