Why Now Is the Best Time to Buy Kinaxis Inc. (TSX:KXS)

Description

Kinaxis Inc (TSX:KXS) is a supply chain management planning software company that has been around a while, but only went public recently (in 2014). Since its IPO, KXS has provided amazing returns; the company's stock price has increased by more than 450% since it first hit the market. This figure compares favourably to the major stock market indexes.

Investors looking to KXS should be looking primarily at the company's growth potential. KXS does not pay dividends, and the company has an extremely high price to earnings ratio. KXS is currently trading at 114 times its earnings. Companies with strong earnings growth potential tend to have much higher P/E ratios than the average. How solid, then, are KXS' growth prospects?

Industry prospects

Kinaxis addresses an extremely important need for companies. Supply chain management is essential to the proper functioning of large organizations, as it directly affects a company's risks and operating expenses and costs, and thus its bottom line. Supply chain management is also more complex than ever. Making myriad moving parts function like a well-oiled machine only gets harder once companies travel across borders and industries.

Kinaxis growth prospects

The future of the company in which KXS operates is thus very secure. What about the company itself? How secure is KXS' future? Kinaxis can gradually increase revenues and profits in at least two ways. First, the company can raise the prices it charges for its services. Second, KXS can increase its number of customers.

Kinaxis seems to be fairing extremely well when it comes to both metrics. The company generally enters into prepaid agreements with new clients, and these agreements last between two and five years. This system ensures KXS' ability to generate profits even when the economy is not doing well, since the company's revenues are tied to long-term contracts. A significant percentage of KXS' revenues are recurring.

KXS has an outstanding retention rate that is above 100%, which means that on average, the company not only keeps most of its customers, but many of them also upgrade the services they receive from KXS once they renew their agreements. KXS gradually increases its prices to keep up with inflation and the increasing value of its services.

Kinaxis already does business with many high-profile clients. The company continues to improve its customer base, however. The best evidence of this trend is KXS' growing revenue. From 2014 to 2017, the company's revenue grew by more than 90%.

KXS' latest quarter – 2018 Q3 – showed increases in total revenue, total subscription revenue, and gross profit of 18%, 19%, and 16%, respectively. According to KXS, this growth is primarily driven by the acquisition of new customers, which accounts for approximately 65% of subscription service revenue growth.

The bottom line

Kinaxis continues to increase its market position. The company has a clear and simple vision on how to increase revenues and profits, and so far, management is following the script to the letter, which is working. The Ottawa-based software company also benefits from high switching costs, which probably contributes to its high retention rate. All things considered, Kinaxis presents strong growth potential.

What's more, KXS might currently be on sale. The company shed about 27% of its share value in about a week last November, and it hasn't fully recovered yet. Now might be as good a time as ever to buy shares of KXS or buy more if you already own some.

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