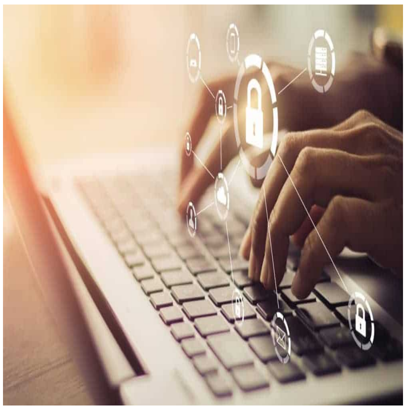

Is This Recovering Tech Stock a Buy?

Description

Several months ago, when **Kinaxis** (TSX:KXS) was reaching new highs, I'd recommended waiting for a pullback to buy this expensive stock. Since that time, the supply chain management technology company was almost cut in half, retreating from a high of around $100 a share to a 52-week low of around $60. Since the trough, the company's share price has recovered to about $75 a share. So, is Kinaxis still a buy at this level, or has it risen past a desirable entry point?

Kinaxis is a quickly growing company in a relatively boring business: supply chain solutions. This Canadian success story works with large organizations around the world, such as **Unilever** and **Ford** to optimize their supply chains.

It was not only the general downturn that hit Kinaxis's share price in late 2018. The company was and still is expensive on a valuation basis. Currently, with the company still well below its highs, Kinaxis still trades at 104 times trailing earnings. When companies are priced for growth at high multiples, any setback can cause them to fall fast and hard.

But the full-year 2018 results released in March of this year are encouraging. The company continues to experience double-digit growth in total revenue, increasing by 16% at year-end over 2017's results. Gross profit increased by a similar 15%, adding to positive sentiment over the same period.

Unfortunately, operating expenses did negatively affect adjusted EBITDA, especially in the fourth quarter, where it decreased 22% over the fourth quarter of 2017. The increased operating expenses, however, were the result of product innovation initiatives and global expansion. If successful, the increased spending should help Kinaxis grow going forward.

The biggest downside to this stock at the moment remains the fact that Kinaxis does not pay a dividend. This fact will most likely keep many income-focused Canadian investors on the sidelines.

The lack of dividend has other implications as well. Investors also need to decide, since there is no tax advantage to holding this company as exists with dividend payers, whether to buy Kinaxis or put their money into an American tech alternative. Personally, this is one of my biggest reasons not to buy the stock, since there are ample larger, quickly growing companies in the United States, like **Amazon.com**, that I would rather invest my dollars in.

But the Canadian dollar does not buy a lot of U.S. dollars these days. Exchanging them to buy American shares might be a deterrent for many Canadians. In this case, a growth stock like Kinaxis might be a good choice.

What should investors do?

Even after its recent recovery, investors interested in buying into a Canadian tech company like Kinaxis could comfortably enter a position at the present price. It does give Canadians the opportunity to buy a quickly growing tech stock without using expensive U.S. dollars to buy an American tech alternative. Over the coming years, Kinaxis will likely continue to perform well and grow as it offers more products and services to its global customer base.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:KXS (Kinaxis Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/08/26
Date Created
2019/04/23
Author
krisknutson