This Canadian Tech Growth Stock Has its Mojo Back in 2019

Description

Canadian supply chain management solutions provider **Kinaxis** (TSX:KXS) is gaining global market share, as its Rapid Response platform finds favour among large corporate giants across the world's largest economies, and the tech growth stock's latest quarterly earnings release seems to reignite investor interest, as evidenced by a nearly 12% jump in share price upon the release on May 10.

Now that it's been a full year since the adoption of new revenue recognition and reporting standard IFRS 15, there wasn't need to report on how revenue could have been prior to the new standard, as Q1 2018 and Q1 2019 results are directly comparable. The company's latest financial reports are much simpler and cleaner.

Here are some notable takeaways from the latest quarterly financial data.

Revenue growth

Total revenue for the quarter came in 24% higher than the 2018 comparable quarterly top line as software as a service (SaaS) revenue increased by 17.3%, and subscription term licences grew by 87%.

This was a significant positive, as the company seeks to maintain strong double-digit growth rates to maintain its growth stock status, with a corporate guidance for total SaaS revenue growth for 2019 reiterated at around 21% for the year.

However, top-line growth may not sustain at this rate, as subscription term licences are likely to be very volatile quarter to quarter due to timing of customer engagements, and the new revenue accounting standard mandated an early recognition of such revenue, while many corporate clients are likely to buy the licences at the beginning of the year.

A welcome margin expansion

There was a slight improvement in quarterly gross margin to 73.4% against a 72.5% margin reported for the same quarter in 2018. Investors would wish that such margin expansions continue, but the higher reading is likely a reflection of front-loaded subscription term licence revenues during the first quarter.

I like the fact that the gross margin growth actually flowed down the income statement. Even if there was a 20% growth in operating expense for the quarter, the operating margin before exchange gains/losses and finance income stood at 22.3% of revenue — much better than the 20.8% reading last year.

Even better, an adjusted EBITDA of nearly 35% was a significant show for operating profitability growth, as compared to 33.4% achieved during the same quarter last year. Such marked improvements, if sustained, may propel share valuation going forward, but investors should note the hefty 80 times plus earnings multiple on the stock.

Shares are already expensive, but the 53% increase in diluted EPS to US$0.26 per share for the quarter, if repeatable, could support a return to $100 for the stock this year.

Geographical performance improvements

I noted Kinaxis's poor showing in its home territory, as Canada revenues consistently dwindled year over year, as if the company's offerings were not relevant to the local market anymore, with U.S, Europe, and Asian territories driving all the top-line growth.

That curse has been broken now.

For the first time in several quarters, Kinaxis recorded a 61% increase in revenue from its Canadian geographic territory during the first quarter.

Actually, the company reported double-digit growth in all four geographical territories, with the largest segment, the U.S. market, delivering nearly 14% growth, Europe recording a 61% revenue increase to constitute nearly 22% of total corporate sales and Asia delivering a 41% quarterly revenue jump as compared to the same quarter last year.

The home market has become the smallest revenue segment after a long period of declines. Could we blame a lack of desirable "large global enterprises that have significant unresolved supply chain challenges" (the company's description of its target market) as the reason for lacklustre revenue performance in the home country?

It would have been great if the company had maintained a stable sales run rate in its home turf, even if growth opportunities lacked, hence the latest show is commendable.

Investor takeaway

Kinaxis still has some significant concentration risk, as the company's 10 largest customers contributed 45% of quarterly revenue, with one customer contributing as much as 14% of corporate sales for the quarter. However, the company's high revenue-retention rate of over 100% is lovely, while growing cash flows could support cash acquisitions that could spur growth forward in the future.

Investors love being part of a good growth story, and I wouldn't be surprised if shares hit a $100 again this year, but I would still urge shareholders to keep an eye on some these factors discussed for the company's 2018 earnings.

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