Up 50% in 2019 — With Room to Rise Higher — This Tech Stock Is a Must-Own

Description

Descartes Systems Inc. (TSX:DSG)(NASDAQ:DSG) is on a winning streak.

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In this article, I would like to look at what this means for investors and how we can make money off $4 billion logistics technology solutions provider.

In the last five years, Descartes has achieved a compound annual growth rate (CAGR) in free cash flow of almost 10%, revenue rise from $170 million to $275 million and a valuation that's gone from undervalued to lofty.

The opportunity lies is in the fact that Descartes has been and will continue to be a consolidator in its industry, consistently acquiring companies and generating revenue and cost synergies, driving cash flows and margins higher.

As a provider of SaaS logistic and supply chain management solutions, Descartes can be expected to achieve strong growth rates ahead. Descartes' Global Logistics Network covers many transportation modes, providing a broad offering of logistics management solutions that will continue to be in high demand.

The company's ultimate goal is to provide automation and optimization of the $4 trillion logistics market. With a healthy balance sheet, a strong history of acquiring and integrating and driving up margins plus a solid competitive position, Descartes is doing well.

Investment strategy

So, I think we've established that Descartes stock is an attractive tech stock that's worth considering with its consistent history of value creation and a healthy balance sheet to ground it.

In the last five years, the stock has risen 256% amid rising margins, organic growth and mostly, growth via acquisitions.

In the latest quarter, the first quarter of fiscal 2020, Descartes' winning streak continued as the company reported higher margins than expected and compared to last year. Gross margins were significantly higher than last year, as were adjusted EBITDA margins, which came in at 36.7% compared to 32.9% last year.

Looking ahead, on the positive side, the company's revenue mix will shift to higher growth areas such as eCommerce and MacroPoint, which is the cloud-based freight tracking solution that Descartes acquired a couple of years ago.

On the negative side, Descartes has seen EPS disappointments in recent quarters and has seen its estimates reigned in as non-cash amortization has been higher than initially expected. A reduction in earnings estimates is rarely a good sign, at least in the short term. This, coupled with Descartes' higher valuation versus its history and its peer group, should cause caution.

Final thoughts

Descartes remains a solid long-term holding for exposure to the rapidly evolving and growing tech industry. But be patient with this tech stock: keep it on your radar and buy on weakness.

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