Better Tech Stock: BlackBerry Inc (TSX:BB) or Kinaxis Inc (TSX:KXS)?

Description

BlackBerry Inc (TSX:BB)(NYSE:BB) is desperately trying to recapture its former glory. The tech company is now focusing on the cybersecurity sector in hopes that this new venture will be fruitful.

Kinaxis Inc (TSX:KXS), on the other hand, is currently flying high. The company's share price has grown by more than 500% over the past five years. While there are good reasons to consider purchasing shares of both of these tech firms, let's see which of the two is the better buy right now.

The case for BlackBerry

BlackBerry has successfully shed its hardware business, and the Ottawa-based company has made strides toward becoming a legit software provider. One of the most important steps in the firm's transformation has been making key acquisitions, particularly that of **Cylance Inc**.

Cylance is a California-based Cybersecurity company, and this acquisition — the largest in BlackBerry's history — was a shrewd one because it helped strengthen the firm's cybersecurity and Internet of Things (IoT) segments.

IoT is an interesting opportunity given that it is currently growing at a fast pace. Spending in IoT services is predicted to break the $1 trillion mark some time during the next decade.

BlackBerry's latest earnings report was the first to include the impact of its Cylance acquisition. Though there were some encouraging signs, it is clear that the company still has work to do. Revenues and gross profits increased by 15% and 10% year over year, respectively.

However, gross profit margin decreased by about 4% and the company posted a net loss. The good news is that management forecasted revenue growth of 23%-27% for the current fiscal year.

Costs should increase, however, as BlackBerry continues to integrate Cylance into its core operations. This task could continue weighing on BlackBerry's margins.

The case for Kinaxis

Supply chain management software company Kinaxis is on a roll. The firm has been growing in many different ways. First, its client base has been increasing in recent years.

Of course, no business would complain about having more clients.

But Kinaxis offers software as a service (SaaS), which often come with long-term contracts and high switching costs. Thus, Kinaxis is not only picking up clients for one time transactions, but is also acquiring a stable revenue base for the future.

The Ontario-based tech firm has been increasing its top line as well; over the past four years, Kinaxis' revenues have grown by 65%.

However, Kinaxis does have several drawbacks. Perhaps most important is that although the firm has been able to acquire new clients, only a few of its clients are responsible for much of its earnings.

In other words, if Kinaxis loses some of its major customers, it could be catastrophic to its bottom line. While there is no sign of this happening anytime soon, it is definitely something to keep in mind moving forward.

Kinaxis is also priced at a high premium, with its shares trading at 128 times past and 59 times future earnings at writing. Of course, such valuation metrics are typical of growth stocks.

Which one should you buy?

Both companies show some interesting prospects, but while Kinaxis has shown its ability to be successful, BlackBerry has yet to show investors that it can consistently survive in its new environment.

Thus, despite its much higher price tag, I think Kinaxis is the better buy at this point.

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