



Why This Tech Stock Rose Over 10% Yesterday

Description

Shares of software applications company **The Descartes Systems Group** ([TSX:DSG](#))([NASDAQ:DSGX](#)) rose 10.04% yesterday to close trading at \$52.79 at writing. DSG stock is currently trading 55% above its 52-week low and 6.2% below its 52-week high.

DSG announced its fiscal second quarter of 2020 results after market close on September 4. It reported revenue of \$80.5 million, a year-over-year rise of 20%, up from revenue of \$67.1 million in the second quarter of fiscal 2019. Services revenue accounted for 89% of total sales and rose 20% to \$71.4 million.

The company's operating income rose 30% to \$13.1 million, up from \$10.1 million in the prior-year period. Adjusted earnings per share (EPS) was \$0.10 in the second quarter of 2020, compared to EPS of \$0.11 in the second quarter of 2019.

While DSG met analyst sales estimates, it beat EPS estimates of \$0.08 by 25% in the second quarter, driving the company stock price higher. DSG CEO stated, "Our customers are facing a more dynamic business environment than ever, with global trade regulations changing on a daily basis and economic conditions in constant flux."

He added, "This creates opportunities for companies that can react quickly with timely, reliable information and challenges for those that cannot. Our continued investments in our Global Logistics Network are helping our customers successfully navigate this environment, and in turn our customers continue to do more business with us, which is reflected in our strong financial results."

A look at DSG's business model

The Descartes Systems Group is a leading provider of SaaS (software as a service) solutions for logistic intensive businesses. It has a presence in Canada, U.S. Europe, Asia, and South America regions. The SaaS company has an employee strength of 1,500 and focuses on a subscription-based recurring revenue model.

DSG has a customer base of over 20,000 across 160 countries. It has a broad array of logistical management solutions. The company's customer base includes firms such as **Air Canada, British Airways, Best Buy, Coca-Cola, and Maersk**, among others.

Companies such as **Home Depot** has leveraged DSG's Home Delivery solution for real-time delivery and appointment scheduling, route optimization, and mobile resource management.

DSG helps airlines with country-specific customs and security filings. It provides cargo tracking solutions as well to logistics partners.

A look at DSG's revenue and earnings growth

DSG has focused on inorganic growth to drive sales. The company has acquired 22 companies in the last five years for a total consideration of about \$800 million. It has managed to grow sales from \$204 million in 2017 to \$275 million in 2019.

Analysts expect sales to grow by 18.6% to \$326.2 million in 2020 and 10.5% to \$360.34 million in 2021. There are enough revenue drivers for DSG to grow sales by [expanding the product line as well](#).

DSG wants to focus on expanding profit margins through cost control and increasing operating efficiency. While DSG's earnings are estimated to fall by 10% year over year in fiscal 2020, it's estimated to rise by 61% in fiscal 2021 and at an annual rate of 13% in the next five years.

DSG stock is trading at a forward P/E multiple of 69, which may seem expensive. Analysts have a 12-month average target price of \$56.5 for DSG, thus indicating that the stock is trading at a discount of 7% to the target estimate.

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1. Investing
2. Tech Stocks

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2. TSX:DSG (The Descartes Systems Group Inc)

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