



TFSA Investors: This Tech Growth Stock Is Hitting New 52-Week Highs

Description

Kinaxis ([TSX:KXS](#)) stock surged 17% to hit a new 52 week high in early trading on Friday, November 1, and the share price recorded another new high at \$98.36 on Monday after management released impressive earnings results for the third quarter of 2019.

The supply chain management software maker's quarterly results impressed in many significant areas, even an unusual charge after an arbitration loss in a previously disclosed dispute with an Asian customer couldn't suppress the growth firepower in the company's adjusted EBITDA and net earnings for the quarter.

Here's how the company's latest earnings installment why I believe Kinaxis [stock could help grow](#) ones retirement savings in a TFSA account.

Super-strong revenue growth

The company grew its total revenue for the last quarter by 29% year over year. Its most stable and recurring Software-as-a-Service (SaaS) revenue line was up 28% from last year, while the more volatile subscription term licences jumped 545% year on year after new client wins.

The company scored big customer wins during the third quarter, including **Honda**, Yamaha Motors, **Teva Pharmaceuticals** and tobacco giant **British American Tobacco**, and I'm very much encouraged by management's comment that bookings were strong during the quarter. We could see a great fourth-quarter performance.

Given the proven 100% high-client and revenue-retention rate on the company's increasingly cloud hosted Rapid Response software platform, it's logical to expect strong earnings growth in 2020, too.

Margin expansions

The tech growth machine saw its gross profit increase 36% and gross margin expand to 71% for the

quarter, up from 67% same period last year.

Losing an arbitration award in a well-publicized matter that involved a large Asian customer and the resultant US\$2.5 million charge to the company's receivables tampered profitability growth, but despite the charge, adjusted EBITDA still jumped 29%, and net profit was 70% higher than last year same quarter.

Excluding the arbitration charge, the adjusted EBITDA margin would have been 31% of revenue, up from 26% as reported last year, and the net profit margin would have risen further to about 13% for the quarter.

Considering that Kinaxis's financial reports aren't clouded by gains and losses in corporate investment portfolios and on non-operating activities, the company's margin expansions are of high quality, can be repeatable, and therefore should attract a significant valuation premium. And we saw shares pop after the quarterly report on Friday.

Bullish updated guidance

Management is very upbeat about the company's fourth-quarter performance, as it has increased all aspects of its guidance for the remainder of the year to reflect the consistently strong new bookings during the last quarter.

Total annual revenue guidance has been increased to US\$188-190 million up from US\$183-188 million reiterated in August, and SaaS revenue-growth-rate guidance moves to 22% — the upper end of the prior guidance.

I like the adjusted EBITDA margin guidance update the most. This favourite operating earnings margin could expand to 27-29% for this year, up from a prior guidance of 25-27% for 2019.

Margin expansions are an investor's favourite news, as they depict increased earnings power on each dollar of revenue, and revenues are growing exponentially at this tech firm.

Investor takeaway

Kinaxis did well during the last quarter, and I'd expect a good fourth quarter given the strong updated guidance for the year.

I wouldn't be surprised if the share price continues to hit new highs this week and into the next year. All geographical segments, including the once weak Canada segment, are growing in high double digits so far this year, and management continues executing well.

That said, shares are expensive at P/E multiples near 100 times, and I'm waiting to see by how much the share price will breach the \$100 mark that proved to be a key resistance in August 2018, but KXS stock seems a good long-term buy-and-hold candidate for wealth growth in a TFSA account.

Happy investing.

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