



TFSA Investors: Why Ceridian HCM (TSX:CDAY) Is a Top Pick for 2020

Description

Shares of **Ceridian HCM Holdings** (TSX:CDAY)([NYSE:CDAY](#)) are trading at \$79.44. The stock has gained 73% in 2019 and has returned 105% since its IPO in April 2018. Ceridian is a global human resource capital management (HCM) firm in the software space.

Its flagship product is Dayforce, which provides payroll, benefits, workforce management, and talent management capabilities. Enterprises can manage the entire employee life cycle right from recruiting and onboarding to career development and more on the CDAY platform.

What impacted CDAY stock recently?

Shares of CDAY have gained momentum recently. The stock is up 41% since October 23, 2019, and is trading at its record high currently. CDAY announced its third-quarter results on November 7, 2019, and reported sales of US\$202.3 million and adjusted earnings of US\$0.11.

Analysts estimated CDAY to report sales of US\$196.47 million and EPS of US\$0.10 in the September quarter. CDAY's management raised its revenue forecast for 2019. The company has estimated 2019 sales between US\$822 million and US\$825 million, up from the prior guidance of sales between US\$810 million and US\$815 million.

But what is driving CDAY sales higher? The company's flagship product platform Dayforce continues to rake in sales. Dayforce's recurring revenue for Q3 stood at 33% and revenue growth was over 30%. Cloud sales too rose 26% year over year in the third quarter. CDAY ended Q3 with a customer base of 4,159. It added 163 customers sequentially and 704 customers since the third quarter of 2018.

CDAY was also able to improve gross margin by 440 basis points year over year to 70.2%. Adjusted EBITDA was up 27.5% at US\$46.4 million, while the EBITDA margin rose 250 basis points to 22.9%.

CDAY continues to focus heavily on research and development to improve product features and delivery. Its cash investment in product development stood at US\$17.4 million in Q3, an increase of 21% year over year and accounted for 8.6% of sales.

CDAY announced the acquisition of RITEQ, which is an Australian-based service provider of enterprise workforce management solutions. According to Ceridian CEO David Ossip, "The acquisition provides Dayforce with an median presence in the ANZ region, a solid customer base to move to Dayforce and a wealth of localized knowledge to enhance the breadth of the nature of Dayforce offering."

He added, "We believe this type of acquisition strategy can be replicated across the globe and can be used to accelerate our global expansion, which we believe can reach 20 countries within the next three years."

The major wins for Ceridian HCM included contract wins with a large healthcare account with 35,000 employees. It also bagged a contract with a large retail and wholesale footwear company with 13,000 employees.

What's next for CDAY and investors?

CDAY is optimistic about its Dayforce platform that has the potential to replace legacy HCM platforms. Its acquisition of RITEQ provides the firm with an opportunity to gain traction in the Asia Pacific region.

Analysts expect CDAY's sales to rise from US\$746 million in 2018 to US\$1.063 billion in 2021. They also expect earnings per share to grow at an annual rate of 133% between 2018 and 2023.

CDAY stock is valued at \$8.6 billion (in terms of market cap) and is valued at 10.6 times forward sales. It is trading at a forward price-to-earnings multiple of 86, and we can see that its high valuation is supported by robust growth estimates and an [expanding addressable market](#).

CDAY is a solid long-term buy, but, as is the case with most tech stocks, it remains vulnerable in a market sell-off. Investors can look to buy the stock at major corrections and average out their losses.

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2. TSX:DAY (Dayforce)

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