



Canadian Tech Stock Delivers Good News Amid a Market Crash

Description

Canada-based supply chain planning and analytics software provider **Kinaxis** ([TSX:KXS](#)) delivered a strong set of fourth-quarter and full-year 2019 financial results after market close on Tuesday to ease some investor nerves that had tightened after a rough trading day. Kinaxis stock traded 6.79% lower yesterday amid a market crash that wiped nearly 2.2% off the entire **S&P/TSX Composite Index** in one day.

The company's impressive numbers may be dampened by a bearish stock market that could be naturally overreacting to the scares of global economic slowdown, which was triggered by the rapidly spreading coronavirus. The coronavirus isn't showing any encouraging signs of containment outside China.

The company's numbers extended the [momentum exhibited earlier during the past year](#), and they were too good for Canadian tech investors to ignore.

Kinaxis's fourth-quarter total revenue growth of 47% to US\$56.3 million came with a 60% growth in gross earnings and an expansion of the gross margin from 68% in 2018 to 74% last year. Net profit for the quarter surged 168%, and the company's adjusted EBITDA margin increased to 32% of revenue, up from 23% last year.

Profitability generally improved during the past year, as a 27% growth in annual total revenue to US\$192 million translated to a 33% increase in gross earnings and a 61% surge in annual net earnings per share on a diluted basis.

I love cash flow, as this is the lifeblood of any organization, whether it's making profits or booking accounting losses. Huge profits may be made year in and year out, but if cash flow generation is poor, the business may suffer from punitive interest on borrowings, and investors may have to make do with distressing dilutions from new fund-raising initiatives to boost liquidity.

Kinaxis saw its cash flow from operations grow by 31% during the past year as compared to 2018, and its cash and short-term investments balance keeps increasing at a double-digit run-rate. This empowers management to continue executing a high-quality internally funded organic growth strategy.

The company has no debt in its capital structure.

Stronger earnings growth with visibility from long-term contracts

The company has a very strong customer-retention record that is enabled by its long-term contracted subscriptions business, which predominantly relies on cloud computing through a software-as-a-service (SaaS) model. Net revenue retention remained above 100% for 2019.

During the past year, SaaS contract bookings increased by 40% year-on-year exit December 2019, and the company has a maintenance and support services book that grew by 62% last year.

While the coronavirus could still dampen global economic growth and negatively affect production and logistical operations across affected countries and encourage some new customers to delay their buying decisions on supply chain products, the company's product isn't a just-in-time type of purchase. Its long implementation and integration timelines may still compel customers to move forward with purchase plans as soon as virus fears abate and economic activity and projections improve.

A cautiously conservative management has issued a strong SaaS revenue-growth guidance of 23-25% for 2020 but sees total revenue expanding by only 10-12% and the adjusted EBITDA margin shrinking to 20-23% for this year. I wouldn't expect them to have ignored the developing coronavirus scare, of course.

The company was able to exceed almost all key financial metrics in its annual guidance for 2019.

CATEGORY

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2. Tech Stocks

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