Is This Blue-Chip Tech Stock a Buy Before Earnings?

Description

May 27 is a key date to pencil in your diary if you happen to be a tech investor. That's when top automation stock **Descartes Systems Group** (TSX:DSG)(NASDAQ:DSGX) will spill the beans on what kind of quarter it just had. Signs are positive ahead of earnings amid a hot season for automation technology. In fact, it looks as though Descartes is about to continue the trend in outperforming Canadian tech stocks.

But will Descartes follow in the footsteps of **Shopify** and **Kinaxis**, and if so, should investors wait for the dip? Analysts are pegging EPS for Descartes at $0.12. This would mean a significant improvement over last year's corresponding quarter's performance. EPS for the quarter was $0.09 for 2019, making for growth of 33%. Momentum investors might therefore expect trading action to heat up as the month comes to a close.

Supply chain management is a growth trend

Descartes is active in a comprehensive array of logistics areas. It's the quintessential pick for investors drilling down into the nitty-gritty of business streamlining. Everything from route planning to compliance falls within Descartes's purview, with everywhere from Asia to Africa served. As such, this company has been thrown into the spotlight by a world increasingly reliant on efficiency in supply chains.

So much for the story behind the stock. The share price data for this debt-free name also suggests a buy, although momentum has been slow in mounting of late. Investors eyeing shares in this name should take into account its 16% gains in the last four weeks, however. Descartes's earnings growth has also been strong, up by an average of 14.8% annually for the last five years. But does this equal a buy before earnings?

Canadian tech stocks are breaking out

Consider Descartes's outlook. Descartes investors might expect total returns of 235% by 2025, fed by projected earnings growth in the 25% region per year. This name might not pack the same aggressive upside of Shopify, but it's a Canadian tech stock of note, nevertheless. Future revenue growth may not be in the significant +20% range. However, at 9.5% annually, Descartes is still projected to beat the market.

Casual investors should proceed with some caution when it comes to pricing in the current market. A P/E of almost 100 times earnings does not suggest a well-valued stock. Nor does a P/B of 4.5 times book, although these valuations are not unheard of for this asset class. Indeed, value is not the name of the game when it comes to tech stocks. And Descartes has the potential to outrun the market and provide gravity-proof upside for years to come.

All of the above makes Descartes a rare name that could be a buy at almost any price. However, the pandemic — and the long economic shadow running ahead of it — is forcing investors to take their time. Ideally, investors should be building positions on weakness. The logical conclusion is that tech investors may want to wait until earnings have been reported to buy this name.

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