



Which Is a Better Buy: Descartes (TSX:DSG) or Kinaxis (TSX:KXS)?

Description

The COVID-19 pandemic has brought tech companies in the limelight as companies and individuals are relying more on technology. Software-as-a-Service (SaaS) firms saw a sudden surge in demand, driving their stocks to new highs.

The **iShares S&P/TSX Capped Information Technology Index ETF** rose 25% year to date (YTD), outperforming the **TSX Composite Index**, which fell 4.5%.

Among software stocks, enterprise application software companies have shown [resiliency toward the pandemic](#). As the lockdown eases, supply chain planning will become a key challenge for many companies. Moreover, the U.S.-China trade war will add regulatory complexities to supply chain management.

These challenges will become opportunities for **Descartes Systems** ([TSX:DSG](#))([NASDAQ:DSGX](#)) and **Kinaxis** ([TSX:KXS](#)) in the mid and long term.

Descartes and Kinaxis are in different stages of the growth cycle

Both Descartes and Kinaxis offer cloud-based and on-premise supply chain management solutions. Both earn most of their revenue from cloud subscriptions, which is recurring in nature. However, the two differ in terms of size and growth cycle.

Descartes has an annual revenue of around US\$325 million and a market capitalization of \$5.6 billion. Kinaxis is a smaller player with yearly revenue of around US\$190 million and a market capitalization of \$3.4 billion.

In a SaaS business model, a company in its early stages sees higher revenue growth and lower profit margins as it invests in customer acquisition. As the company matures, its revenue growth stabilizes, and profit margins expand as subscription fee increases with every renewal.

YoY Growth	2016	2017	2018	2019	2020
Descartes Revenue Growth	8%	10%	16%	16%	18%
Kinaxis Revenue Growth	30%	27%	15%	13%	27%
Descartes Adjusted EBITDA Growth	17%	15%	15%	16%	31%
Kinaxis Adjusted EBITDA Growth	87%	-5%	41%	4%	38%

Descartes

Descartes is the [fifth-largest](#)

Descartes' pricing model allows customers to buy perpetual licenses, subscriptions, or use its solutions for a particular transaction. It has successfully transitioned from license software to cloud and now earns more than 87% of its revenue from subscriptions and transactions.

It has increased its revenue at a compound average annual growth rate (CAGR) of 14% between fiscal 2015 and 2020.

The company's priority is to improve its profits. Over the last five years, its adjusted EBITDA has increased 15% and above, thereby improving its adjusted EBITDA margin from 30.4% in fiscal 2015 to 37.6% in fiscal 2020. Its profits rose faster than revenue as it enhanced its operating efficiency.

Kinaxis

Kinaxis is a smaller player, and its solutions are focused on supply chain planning. Its customers are large organizations with complex supply chain operations. It has been diversifying its customer base with no single customer accounting for more than 10% of its revenue.

The company charges both cloud and on-premise solutions a subscription fee, which is subject to renewal. The subscription fee varies depending on the size of the customer, the number of users, applications, and licensed manufacturing, distribution, and inventory sites.

Kinaxis is in the growth stage and relies heavily on new customer acquisition to increase its revenue. Around 66% of its subscription revenue growth comes from new customers. Hence, its revenue and adjusted EBITDA growth have been uneven.

Over the last five years, its revenue and adjusted EBITDA rose at a CAGR of 22% and 29%,

respectively. As the company improved its operating efficiency, its adjusted EBITDA margin rose from 23% in 2014 to 30% in 2019.

Which stock delivers better returns: Descartes or Kinaxis?

Before the pandemic, the two stocks rose 55% in 2019. However, the COVID-19 pandemic skewed the returns curve toward Kinaxis, and the stock rose 68% year to date, whereas Descartes' stock rose 16% YTD.

If you invested \$1,000 each in the two shares in early 2019, you would have earned \$850

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)
3. TSX:KXS (Kinaxis Inc.)

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Date

2025/08/19

Date Created

2020/06/02

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