Kinaxis (TSX:KXS) Just Surged 125%: Should You Buy?

Description

Kinaxis (TSX:KXS) stock has been unstoppable in recent months, with shares now up 125% from its March lows. The supply chain management and sales/operations software developer has been riding high on pandemic tailwinds, as it did its part to help its clients untangle the complicated mess that is the supply chain amid one of the worst operational disruptions in recent memory.

Supply chains are complicated beasts, but as I've mentioned in prior pieces, Kinaxis has invaluable tech tools that can help firms to tame them. Supply/demand imbalances can hurt operational efficiencies of any firm, and that's what makes Kinaxis's offering so valuable through the eyes of clients amid these unprecedented times.

"For Kinaxis, the thesis is simple. The more complexities and disruptions that are introduced to the supply chain of firms, the higher the demand for Kinaxis's value-adding product. Even after this pandemic passes, many firms that have embraced the company amid the pandemic will remain customers for life, as they realize the true value that Kinaxis's offerings can provide." I wrote in a prior piece.

This coronavirus recession could continue wreaking havoc on supply chains

This pandemic has introduced massive uncertainties across the supply chains of many firms. But even after the pandemic ends on the advent of a vaccine, we've still got a potentially severe recession that we need to navigate through. In such a recessionary environment, many firms are going to need all the help that they can get to prepare for and deal with wild fluctuations that will stand to make operations planning that much more difficult.

Kinaxis is experiencing pandemic tailwinds in full force. And I don't think the momentum that Kinaxis has experienced across the board is going to end, as the economy continues moving through the phases on route to a full reopening.

Today's sky-high uncertainties have created an environment where any supply chain-heavy firm that isn't using a supply chain solution like those offered by Kinaxis will be at a major disadvantage. Operational efficiencies that aren't ironed out could cost a pretty penny, likely well more than Kinaxis's solution would have cost.

Kinaxis bets on AI with the acquisition Rubikloud

Just last month, Kinaxis announced a definitive agreement to acquire Artificial Intelligence firm Rubikloud in a deal worth US$60 million in cash. Amid fuelled demand for Kinaxis's forecasting and operations-enhancing solutions, the Rubikloud deal is nothing short of applaud-worthy, as Kinaxis looks to expand its offerings and open doors to future upselling opportunities.

What about valuation on Kinaxis stock?

After Kinaxis's impressive rally, the stock has become a tad lofty, with shares trading at 20.9 times sales and 16.6 times book.

For a firm that's riding high on pandemic tailwinds, though, I think the valuation isn't as stretched compared to the likes of other cloud-based software companies that have seen their valuations soar above and beyond the 20 times sales mark in recent months. Kinaxis is likely to see its growth accelerate over the next year, all while maintaining pretty healthy margins. The stock trades well above historical averages, but it deserves to.

At $200, I'd nibble on Kinaxis shares with the intention of adding on a meaningful pullback, which could happen should tech stocks finally get a chance to take a breather.

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