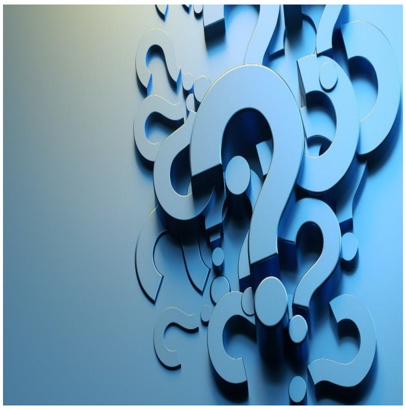

Is Kinaxis (TSX:KXS) Still a Top TSX Tech Stock to Buy?

Description

Supply chain management solutions provider **Kinaxis's** (TSX:KXS) stock price has more than doubled so far this year, and for a good reason. The company's latest second-quarter 2020 earnings report on Wednesday confirmed why Kinaxis remains a top TSX tech stock to own during and beyond the COVID-19 pandemic.

The company has generated more quarterly revenue during the COVID-19 pandemic than it did during normal economic times. Its operations saw minimal impact from the COVID-19 pandemic, even as its employees worked remotely.

Actually, the company's RapidResponse(R) platform has never been more relevant in a world disrupted by a health crisis. As CEO John Sicard rightly puts it, "there has never been more attention on global supply chain resilience, and the power of concurrent planning to provide the agility needed to respond to daily disruption."

Kinaxis reported another revenue record

At US$61.4 million, the company's second-quarter revenue was 45% higher than the comparable sales during the same period last year. Strong revenue growth was powered by a 314% surge in high-margin (but more volatile) subscription term licences, a 48% increase in professional services revenue, and a 26% growth in Software-as-a-Service (SaaS) revenue year over year. SaaS subscription revenue is the company's most stable and most recurring revenue line.

Customers are increasingly buying the company's services. Given that the company's historical revenue retention rate remains over 100% to date, new customers are likely to remain and spend more additional offerings, as its proven land-and-expand marketing strategy continues to work wonders.

Management remains humble enough to avoid mentioning and stressing the phrase *record earnings* in the company's quarterly reports, but that is exactly what the tech firm has been achieving over several years since going public in June 2014.

Profit margins remain high, and they keep expanding

The gross profit margin expanded to a staggering 75% of quarterly revenue. Operating expenses remain largely contained, and quarterly net profit surged by 125% year over year and 61% sequentially to US$9 million. Adjusted EBITDA nearly doubled year over year to a record US$22.5million to expand the adjusted EBITDA margin to 37% for the second quarter.

The company's operations were fantastically profitable during the second quarter of this year. If such a strong performance is repeated, as before, the company could defend its seemingly rich equity valuation premium.

Watch how operations keep generating loads of cash

The company's cash-generating capacity remains strong to power internal growth investments and an acquisition growth strategy. Its cash, cash equivalents, and short-term investment balances have grown by 22.6% during the first six months of this year to US$260.6 million, up from US$212.6 million by December 31, 2019.

Cash flow from operations (CFO) remains persistently positive and growing (as usual). CFO grew by 47% sequentially during the second quarter of this year.

A sustained positive cash flow generation provides a cheap source of growth financing. I would expect the company to sustain its recent acquisition growth strategy. The company has closed two cash-based acquisitions so far this year. We could see more of these cash-based acquisition transactions in the future.

A cash acquisitions-led growth strategy has worked wonders at **Enghouse Systems**. The strategy is not dilutive for current investors. Acquisitions could enable the young growth machine to compound wealth for its shareholders while defending its market share from would-be competitors.

Should you buy Kinaxis stock today?

Uncertainty remains regarding how the business will evolve as the pandemic economy unravels going forward. However, the company remains a solid growth stock to own and a reliable wealth compounding machine. It continues to hit new sales records, earns healthy profit margins, and generates strong positive cash flow from operations, even during uncertain times. Investors have no choice but to love the Canadian tech stock.

Management reiterated parts of its prior earnings guidance for this year. It raised its full-year total revenue guidance from US$211-215 million to US$216-220 million. Management maintained SaaS revenue-growth guidance at 23-25%, and its adjusted EBITDA margin guidance for 2020 are at 20-23%. These should be great numbers to be achieved in a pandemic year.

I would continue to hold KXS shares in a growth-oriented portfolio.

That said, shares remain richly valued with a trailing price-to-earnings multiple of over 160 times. There's no room for any minor misses here. Any disappointing quarter could result in a significant decline in the share price.

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