



Why Kinaxis (TSX:KXS) Is a Buy After its Impressive Q2 Earnings

Description

Kinaxis ([TSX:KXS](#)) provides supply chain management solutions for its customers. Over the last five years, it has created significant wealth for its shareholders by delivering over 1,270% of returns. Even this year, when the broader equity markets are trading lower amid the pandemic, the company's stock price has more than doubled.

Last week, Kinaxis had reported [impressive second-quarter earnings](#) outperforming analysts' expectations. Let's look at its second-quarter performance in more detail.

Strong year-over-year- growth

During the second quarter, Kinaxis's revenue grew 45% year over year to US\$61.4 million, which outperformed analysts' expectations by 17.3%. The growth in the sales of its SaaS (software-as-a-service) segment, subscription term licence segment, and the professional services segment drove the company's revenue.

New customer acquisition and the expansion of the existing customer subscriptions contributed to the company's revenue growth. Amid the pandemic, the company's employees worked remotely, supporting the company's existing customers and aided in the deployment of software for the new customers.

Meanwhile, the addition of new employees and the acquisition of Prana in the first quarter contributed to the revenue growth from its professional services segment.

During the quarter, Kinaxis's adjusted EBITDA increased by over 94% due to its top-line growth and expansion in gross margin. The margins on the subscription term licence segment are on the higher side. So, the increase of over 300% in the segment's revenue improved the company's gross margins also. Meanwhile, higher operating expenses offset some of the gains in its EBITDA.

Liquidity and valuation

Kinaxis generated US\$30.8 million of cash from its operations in the second quarter, raising its cash and cash equivalents to US\$260.6 million. Meanwhile, subsequent to the quarter, the company completed the acquisition of Rubikloud, utilizing US\$60 million of its cash. So, after the acquisition, the company's cash and cash equivalent stood at roughly US\$200 million.

Currently, Kinaxis trades at a premium. Its forward price-to-earnings multiple stands at 118.1, while its average for the past three years stands at 57.5. Also, it trades at a forward EV-to-sales multiple of 16.2 compared to the industry average of 4.1 times. Although the company's valuation multiples look expensive, I believe the strong growth prospects justify these high valuations.

Outlook

Amid uncertainty due to the pandemic, many companies have withdrawn their guidance for this fiscal quarter. However, Kinaxis has hiked its overall revenue guidance for this fiscal, while maintaining its guidance for the adjusted EBITDA margin.

The management expects its revenue to come in the range of US\$216-US\$220 million compared to US\$191.5 million in 2019. Meanwhile, its adjusted EBITDA margin could come in between 20% and 23%.

Kinaxis has a strong sales pipeline with backlog revenue standing at US\$333 million at the end of the second quarter. Over the next few years, the company would recognize these sales after delivering the required service. Also, the acquisition of Rubikloud, which provides artificial intelligence software for retailers, could boost its sales. So, I believe the company's outlook looks robust.

Bottom line

Amid the pandemic, it's not just large online retailers going online; even small and medium retailers are going online. This shift towards e-commerce could put pressure on many companies' supply chains due to the need for quicker fulfillment time, competitive pricing, and flexibility. So, I believe this could raise the demand for Kinaxis services going forward.

So, despite its expensive valuation, I believe investors should buy Kinaxis, given its [long-term growth potential](#).

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Date

2025/08/25

Date Created

2020/08/10

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