Better Buy: Shopify (TSX:SHOP) or Kinaxis (TSX:KXS)?

Description

The small but explosive technology sector has offered up some fantastic stocks for Canadian investors in 2020. Today, I want to look at two top companies that have richly rewarded shareholders so far this year. **Shopify** (TSX:SHOP)(NYSE:SHOP) stock has climbed 153% in 2020 as of close on August 14. Meanwhile, **Kinaxis** (TSX:KXS) has increased 94% at the time of this writing. Which is the better buy today?

The case for Shopify stock

Shopify stock has had an electric year so far. However, the stock has stumbled over the past month. Shares have dropped 1.2% month over month as of close on August 14. Back in June, I'd discussed whether investors should look to buy the dip, as it had fallen below the $1,000 mark.

The COVID-19 pandemic has pushed even more consumers to digital platforms. This is good news for Shopify's business model, especially as it looks to make waves in international markets. Grand View Research recently projected that the global e-commerce software market would achieve a CAGR of 16.3% from 2020 through 2027.

Shopify released its second-quarter 2020 results on July 29. Gross merchandise volume surged 119% year over year to $30.1 billion. Meanwhile, total revenue climbed 97% to $714.3 million. Better yet, its adjusted net income rose to $129.4 million, or $1.05 per diluted share compared to $10.7 million, or $0.10 per share, in the prior year. The company still possesses an immaculate balance sheet.

This is one of the fortunate companies that has benefited from the COVID-19 pandemic. Its valuation is steep, but it boasts very attractive growth potential.

Why Kinaxis has become the best TSX tech stock in 2020

Kinaxis was one of the best-performing TSX stocks during the worst periods of the March market crash. Its shares have increased over 150% year over year. The COVID-19 pandemic threatened to upend domestic and global supply chains. Kinaxis's supply chain and operations planning software has attracted huge global clients in recent years. This is another technology company that has garnered more interest in this crisis.

The company released its second-quarter 2020 results on August 5. Total revenue climbed 45% year over year to $61.4 million. Adjusted EBITDA surged 94% to $22.4 million. In the beginning of Q3 2020, Kinaxis also announced the acquisition of Rubikloud. This AI-based demand planning SaaS provider will bolster value for its CPG customers and provide a crucial entry point into the enterprise retail industry.

Kinaxis has boosted its FY 2020 guidance on the back of its promising performance. It forecasts total revenue between $216 and $220 million and SaaS growth between 23% and 25%. Kinaxis is the smaller company with a more modest growth rate. However, it has reached profitability, and it also possesses a flawless balance sheet.

Verdict

Both tech stocks have been marvelous holds in 2020. Shopify and Kinaxis are also growing on the back of artificial intelligence development. This is an area that investors should seek exposure to in the long term. I love both these stocks for the future, but I'm picking Shopify, even with its sky-high valuation today. The COVID-19 pandemic has accelerated the already impressive trajectory for e-commerce growth. Shopify will benefit in a big way as this decade progresses.

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1. Investing
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aocallaghan