Should You Buy Kinaxis (TSX:KXS) Stock on the Dip?

Description

Tech stocks have been struggling in September, and for Foolish investors, that means there could be some great buying opportunities out there today. One stock in particular that looks tempting is **Kinaxis** (TSX:KXS). The Ontario-based tech stock is up 80% this year, even after its recent drop in price. It peaked at just under $225 last month, but since September 1, shares of Kinaxis have fallen more than 15%.

Nothing has happened during that time that would explain why investors started dumping their holdings of the company. Instead, it just looks to be part of the broad tech selloff that's taken place in the markets of late on both Canadian and U.S. exchanges. But now could be a great time to take a closer look at the stock to see if it's a good buy at around $180 a share.

Kinaxis is coming off a strong quarter

On August 5, the company released its second-quarter results for the period ended June 30. Revenue of US$61.4 million grew 45% year over year. And the company is optimistic for more growth, as it believes its supply and demand planning products are crucial amid COVID-19.

Kinaxis has also expanded its capabilities recently with the acquisition of an AI company, Rubikloud, which provides demand forecasting and supply chain planning solutions for the consumer packaged goods industry.

Kinaxis is projecting that for 2020, its revenue will come in as high as US$220 million. That would be a 14.6% increase from the US$192 million that it generated in 2019.

In Q2, Kinaxis also posted a profit of US$9 million, more than double the US$4 million net income it reported in the same period last year. The company has reported a profit in each of the past four quarters, with its profit margin normally coming in at $10% or better.

Is the stock a cheap buy at this price?

Despite the strong numbers, investors are still paying a hefty premium to own a piece of Kinaxis. Trading at 100 times its future earnings and more than 14 times book value, its stock still looks incredibly expensive. Even when looking in terms of its sales, Kinaxis is trading at around 20 times its revenue. This is definitely not a cheap buy for investors.

The added risk here is that with a growth rate around 15% for the entire fiscal year, that's not going to be enough to get investors excited about this stock. There's also the added danger that in the midst of a recession, businesses will likely be cutting back as much as they can.

While demand planning and forecasting may be essential over the long run, businesses may hold off on taking on big implementations or changes at a time when cash might be tight, and that could negatively impact Kinaxis's top line.

Bottom line

Although Kinaxis stock has fallen sharply recently, it would need to fall a whole lot further before investors should consider buying it. With so many high-priced stocks out there right now, it may only be a matter of time before there's another big correction in the markets this year. And stocks like Kinaxis could be among those that fall the furthest if that happens.

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