Contrarian Buy Alert: This Top TSX Stock Just Fell 28%!

Description

Long-term investing requires quite a bit of focus and discipline. Along the way, you might bump into stocks that have been beaten down due to a poor quarter or a broader market sell-off. This temporary pullback should instead be viewed as a buying opportunity especially if the company's fundamentals are strong.

Also, buying a growth stock at a lower valuation makes its recovery even sweeter as you can benefit from market-beating returns. Here we look at one such company that has lost close to 30% in the last month.

Kinaxis is a SaaS company

Kinaxis (TSX:KXS) is a Canada-based company that provides cloud-based subscription software to enable enterprises to improve and accelerate decision-making across their supply chain operations.

Its flagship product is RapidResponse that manages multiple supply chain management processes. Kinaxis is part of a rapidly expanding market due to the increased complexity and globalization of supply chains as well as outsourcing and various competitive pressures.

Its SaaS (software-as-a-service) and subscription term license revenue growth is driven by contracts with new customers as well as the expansion of its solution and service agreements with existing ones.

KXS's revenue consists of SaaS revenue, subscription term license revenue, and professional services revenue. It also includes maintenance and support revenue. SaaS revenue consists of fees for the provision of RapidResponse in its hosted cloud environment. It includes hosting services and maintenance and support for the solution over the contract term.

Subscription term license revenue consists of fees for on-premise subscriptions while professional sales comprise of fees charged to assist organizations to implement and integrate solutions as well as training of staff to use and deploy these solutions.

Q3 sales were impressive

Kinaxis reported sales of US$55.11 million in Q3, which was up 17% year-over-year. In the first nine months of 2020, sales rose 25% year-over-year to US$169 million. Comparatively, SaaS sales were up 26% at US$39.3 million accounting for 71% of total sales in Q3.

Company CEO and President John Sicard said, “We are pleased to report another strong quarter as SaaS revenue grew by 26% and we achieved an adjusted EBITDA margin of 18%, even after making an acquisition and other significant investments in the business.”

He added, “On the strength of year-to-date results and a growing backlog, we are able to tighten our annual SaaS revenue growth guidance to the high end of our initial range, and increase both our total revenue and adjusted EBITDA margin guidance.”

What next for Kinaxis investors?

Kinaxis stock is trading at $163 per share and is down 28% from its 52-week high. Despite this pullback, the stock has returned over 1,150% since its Initial Public Offering (IPO) in 2014. Kinaxis is valued at a price to sales multiple of 15.7 and a price to earnings multiple of 112.7 which is steep.

However, the company is forecast to increase sales by 16.5% in 2020 and 15.3% in 2021. Its earnings growth is also forecast to rise at an annual rate of 30% between 2021 and 2025.

While the stock was overvalued prior to the sell-off, analysts have a 12-month target price of $181 for KXS, which is 12% higher than its current trading price.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:KXS (Kinaxis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/08/22
Date Created
2020/11/19
Author
araghunath