Looking for Electrifying Growth? Here Are 2 TSX SaaS Stocks for 2021

Description

There has been a flurry of Software as a Service (or SaaS) companies popping up across the globe, including Canada, in the last few years. After all, the traction was evident due to higher profit margins and a large addressable market.

But what is SaaS?

SaaS provides the application or software via the internet. Earlier, users used to get mass-produced software with some cumbersome hardware. But the technology industry has seen a paradigm shift in the last few years.

With SaaS, you get custom-made software where the provider looks after its maintenance, performance, and users' security. You don't need to have fancy hardware nor the expertise to operate it. All you need to have is an internet connection.

Importantly, SaaS as an industry is still in its embryonic stage. With the advent of 5G, artificial intelligence, and other technological advancements, the industry is expected to see solid growth in the next decade.

According to research, the SaaS industry is expected to grow from $134 billion in 2018 to $220 billion by 2022, representing a compounded annual growth rate of 13%.

Investors who have bet on the industry have seen enormous gains in the last few years. For example, a mere $1,000 invested in the **Shopify** (TSX:SHOP)(NYSE:SHOP) IPO in May 2015 would be worth $31,207 today.

Here are two top TSX stocks to bet on in the fast-growing SaaS industry.

Kinaxis

Kinaxis (TSX:KXS) provides cloud-based SaaS solutions to smoothen complex supply chain operations. It mainly earns revenues from long-term subscriptions. Kinaxis stock has risen almost 80% so far this year.

Despite the pandemic, the company has seen its revenues increase almost by 18% year over year in 2020. As large corporations rebuild or revise their supply chains after the COVID disruption, Kinaxis will likely see improved demand and financial growth next year.

As economic recovery gradually stabilizes, it could also see contract renewals and fresh subscriptions in 2021.

Kinaxis is a solid stock to play the SaaS boom. However, conservative investors should enter with caution, as SaaS is a high-risk, high-return industry.

Shopify

The tech titan Shopify is one of the fastest-growing bigwigs across the world. In 2016, it reported revenues of $389 million, while in the last 12 months, its revenues have grown to $2.45 billion. That's an astounding 60% growth compounded annually.

Shopify, a SaaS company, earns money from volume. A large part of its revenues comes from subscription fees, while it also earns big from the commission on every transaction.

The pandemic and the ensuing lockdowns even accelerated Shopify's growth. More and more small- and medium-sized businesses turned to it to set up their digital store. That's why Shopify stock has risen more than 220% so far this year. Importantly, it still has a lot of growth potential.

It sees its addressable market size at $78 billion, far higher than its $2.5 billion revenues. It is the second-largest online marketplace, behind **Amazon**, with a market share of 6% of the U.S. retail e-commerce sales.

There has been a significant shift in consumer behaviour, mainly due to the pandemic, that's driving shoppers from offline to online stores. Shopify could be the biggest beneficiary of that change in the next few years.

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