Market Crash: Sell This 1 Overvalued Stock

Description

Many businesses picked up steam with the COVID-induced shutdowns early this year. The global supply chain, specifically, was in peril with the sudden stoppage of shipments. It was a blessing in disguise for companies that offer solutions to manage supply chain risk and arrest the disruption.

Kinaxis (TSX:KXS) benefitted from the "black swan" event in 2020 and will most likely do well in the post-pandemic. The tech stock is among the TSX's top performers with its 81% rise year to date. However, it appears that Kinaxis is also an overvalued stock. You might want to sell and cash in before a market crash occurs.

High market valuation

Severe restrictions in travel and commercial activities increased supply chain losses at the height of the pandemic. Many countries, including Canada, had to go slow in lifting restrictions to contain coronavirus spread. Meanwhile, the $4.87 billion supply chain software provider from Ottawa was making hay.

The tech shares soared from a low of $99.25 on March 23, 2020, to a high of $214.68 (+133%) on September 1, 2020. Since then, Kinaxis has been a falling knife. As of December 21, 2020, the price is down to $180.65.

Some analysts worry about the intrinsic value, which is 80% below the current price. Also, the price-to-earnings NTM ratio of 24 indicates that the market valuation of Kinaxis is above that of its peer group. The same analysts forecast an earnings decrease in Q4 2020 and Q1 2021.

Financial highlights

Kinaxis reported a strong third quarter (quarter ended September 30, 2020). The company's total revenue and Software-as-a-Service (SaaS) revenue grew by 17% and 26% compared to Q3 2019. The results handily beat revenue forecasts.

According to John Sicard, president and CEO of Kinaxis, the company was able to tighten its annual SaaS revenue growth guidance to the high end of the initial range. Some customers, however, were not able to renew subscription agreements due to COVID-19.

Management updated its full-year 2020 guidance and expected to end the year with total revenue of between US$220 million and US$223 million. The estimated SaaS growth is 24% to 25%. Note that the total SaaS backlog (from 2020 to 2022 and later) is a massive US$334.9 million.

Supply chain optimization

Kinaxis's cloud-based subscription software provides customers with supply chain planning and analytics capabilities. Companies can better manage various supply chain management processes. The business outlook is also encouraging based on analysts' forecast that revenues in 2021 could hit US$258.4 million in 2021.

There's no doubt that COVID-19 exposed the strength of the tech stock. Since the addressable market is vast, there's a long runway for growth. Expect the company to tap more high-quality clients across various industries such as industrial, life sciences, automotive, retail, and high-tech & electronics.

Tech selloff a possibility

Investors can't merely afford to drop Kinaxis due to the visibility into future, contracted revenue, and excellent management execution. However, the stock price is insanely high, if not severely overpriced.

After a blistering run in 2020, a significant correction or selloff in Canada's tech sector could happen next. Kinaxis is a growth company, although the valuation is a bit scary. Perhaps it's better to wait for the dip before taking a position in the tech stock.

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