Buy Alert: Can This High-Growth TSX Stock Stage a Stellar Comeback?

Description

The last few days have seen technology stocks lose significant momentum. While tech giants surged ahead in 2020, investors are now worried about the steep valuations of these companies. Further, the possibility of an interest rate hike coupled with a sluggish macro economy is also taking a toll on equity markets right now.

One such Canadian stock that has been pummeled in recent times is **Kinaxis** (TSX:KXS), a cloud-based SaaS (software-as-a-service) company operating in the supply chain vertical.

A business overview

Kinaxis's revenue consists of SaaS revenue, professional services, subscription term licence revenue as well as maintenance and support revenue. The SaaS business generally consists of fees of its RapidResponse platform in the company's hosted cloud environment. Here, sales are also derived from hosting services and maintenance and support for the solution over the contract term.

Subscription term licence sales consist of fees for the software component for on-premise subscriptions. This is recognized as revenue on commencement of the contract term.

Kinaxis stock fell over 16.9% yesterday

Shares of Kinaxis fell 17% on March 4 after the company disclosed its fourth-quarter results. It reported sales of US$54.9 million compared to US$56.3 million in the prior-year period. Bay Street analysts expected the company to report sales of US$54 million, as customers delayed purchases amid the pandemic. So, why did the stock fall, despite a slight revenue beat?

Analysts expected Kinaxis to report earnings per share of US$0.13 compared to its actual figure of US$0.12. The earnings miss coupled with a broader market sell-off drove the tech stock significantly lower.

KXS stock is currently trading at $135.5, which is almost 40% below its record high. Despite the price decline since last October, the stock has crushed market returns and has gained 940% since going public in mid-2014.

Despite the pandemic, Kinaxis's subscription-based business model meant the company's sales were up 25% year over year in 2020. Its SaaS revenue also jumped 24% year over year and managed to offset any negative impact arising due to COVID-19.

What's next for investors?

Kinaxis stock is valued at a market cap of $3.7 billion. Analysts tracking the firm expect sales of US$251 million in 2021, indicating a price-to-sales multiple of 11.6 and a price-to-earnings multiple of 93, which is really steep.

We can see the stock is priced at a premium even after the pullback. Bay Street expects earnings to grow at an annual rate of 18% in the next five years. Comparatively, earnings growth stood at 22.4% in the last five years.

As businesses seek to modernize their supply chain processes, the demand for AI-based tech solutions is bound to drive the company's top-line growth. However, the company's adjusted EBITDA margin is forecast between 11% and 14% for 2021 compared to 24% in 2020.

Due to its sky-high valuation, Kinaxis stock remains vulnerable, especially if it misses analysts' earnings or revenue estimates in 2021.

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