This Tech Stock Benefits From a Global Recovery

### Description

The global economy is rebounding sharply this year. As borders and physical stores reopen, people can finally spend all the discretionary income that's been piling up. Households across the world are sitting on excess savings after a year of government stimulus and lack of spending opportunities.

This recovery will be reflected in the supply chain, which is why supply-chain management software is probably an ideal sector to bet on in 2021. My top pick is **Descartes Systems Group** (TSX:DSG)( NASDAQ:DSGX)



After a long period of consolidation, Descartes finally seems to be recovering. The stock is up by 19% year to date and looking increasingly bullish, as investors take note of its long-term prospects and growth metrics. Here's a closer look.

## Descartes's prospects

Renewed investor interest is based on the fact that the company's supply chain management solutions are eliciting stronger demand. Auto manufacturers, factories, airlines, and other industries with complex logistics are increasingly using the company solutions to fine-tune their supply chain operations.

Additionally, Descartes is positioned to become a major player in e-commerce logistics and fulfillment segments, given the strong demand for its supply chain solutions. Likewise, the company should continue to see revenue growth as long as people, goods, and information are in transit from one place to another.

Analysts expect earnings to grow by 20% annually over the next five years. Descartes should achieve this relatively high growth target given its increased focus on high-margin services revenue. Additionally, it is increasingly pursuing strategic acquisitions. Last year, it acquired three businesses, all strengthening its core offerings and competitive edge.

## Valuation

Descartes's revenues in its most recent quarter were up 18% year over year to $98.8 million, topping analysts' estimates of $92.2 million. Net income nearly doubled to $18.4 million, or $0.21 a share, compared to $11 million reported a year ago.

After the recent pullback, Descartes is not cheap as it is trading with a price-to-sales multiple of 20 and price-to-book multiple of seven. However, a rich valuation is expected of a high growth stock well positioned to generate above-average financial growth.

That being said, Descartes is a smart bet for investors eyeing exposure to the global trade recovery. The company is well positioned to generate long-term value, given that about 90% of its revenue is recurrent.

## Bottom line

Global demand collapsed last year. Meanwhile, excess savings has created pent-up demand. In 2021, the recovery of the global economy and global trade is the key theme. Software provider Descartes is at the epicentre of this trend.



Suppliers are looking for ways to fine tune their supply chain and reduce costs, as they struggle to keep up with demand. That should boost demand for Descartes's systems. The company already seems to be outperforming by beating analyst expectations.

While the stock is overvalued, if near-term growth rates are stronger than expected, the company could justify its premium. Long-term investors eyeing the global economic recovery should keep this stock on their watch lists for now.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:DSG (The Descartes Systems Group Inc)

**PARTNER-FEEDS**

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

**Category**

1. Investing

**Date**
2025/07/07
**Date Created**
2021/07/16
**Author**
vraisinghani