Buying Opportunity: 1 Great Stock That Is Down 11% in 2021

Description

The impact of natural calamities, extreme weather conditions, and other events on the supply chain pale compared to the 2020 health crisis. COVID-19 affected nearly all industries, not only a handful. Last year was a breakout year for **Kinaxis** (TSX:KXS), as it soared by as much as 119%.

The $4.36 billion provider of cloud-based subscription software for supply chain operations rewarded investors with a total return of 80.3%. However, the momentum fizzled out to start 2021. Kinaxis lost steam and eventually skidded 27.83% from its high of $218.56 on November 4, 2020. As of July 19, 2021, the tech stock trades at $157.52 — or a year-to-date loss of 11.05%.

There were profit takers, naturally, although the drastic pullback presents a buying opportunity. Market analysts recommend a strong buy rating for Kinaxis. Despite the tumble, they believe the growth runway is still very long. The leading fixer of supply chain issues can generate new businesses in 2021 and beyond to accelerate growth.

Q1 2021 highlights

The Q1 2021 (quarter ended March 31, 2021) wasn't a rosy picture. While Kinaxis presented a 9% total revenue growth versus Q1 2020, it reported a US$1.53 million loss compared to the US$5.58 million profit in the same period last year. The notable highlights were the 19% and 16% growth in Software-as-a-Service (SaaS) revenue and adjusted EBITDA margin.

Nonetheless, John Sicard, president and CEO of Kinaxis, was pleased with the quarterly results. He said it was a good initial step towards achieving management's outlook for 2021. While pandemic-related delays remain, the company expects to book new businesses. Sicard adds that apart from project expansions, the incremental subscription bookings were a new record.

Financial outlook

The advantage of Kinaxis is that its long-term contracts provide visibility into future contracted revenue.

Management expects to realize between 17-20% growth in SaaS revenue in 2021. Its full-year revenue forecast is around US$242 to US$247 million. The adjusted EBITDA margin estimate is 11% to 14%.

Also, regarding unsatisfied or partially unsatisfied performance obligations, Kinaxis expects to recognize revenues of US$129.5 million and US$127 million in 2021 and 2022. The future amount for 2023 and later is around US$127.5 million. Meanwhile, the total backlog is about US$384 million.

Furthermore, management believes a 23-25% annual SaaS revenue growth beyond 2021 is achievable in the mid-term if business and market conditions return to normal or typical nature.

Robust revenues will return

Kinaxis has never been in the red for the past four years. It has averaged US$174.9 million and US$17.9 million in revenue and net income, respectively. Moreover, the company plays a vital role in the global supply chain. Business organizations in sectors such as technology, pharmaceuticals, industrial, consumer, and retail, among others, need agility to counter daily volatility.

Robust revenues and growing free cash flow should return in the post-pandemic following the disruption in 2020. Kinaxis has already succeeded in capturing the lion's share of the market. It should maintain its industry-leading position once sales growth accelerates anew.

Kinaxis will capitalize on available opportunities as more companies upgrade their supply chain capabilities. Thus, the long-term prospects for the company remain very positive. Investors should take positions in this tech stock today or include it in their watchlists.

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