



Kinaxis Stock Price: Is it Still a Buy?

Description

Shares of Canadian tech company **Kinaxis** ([TSX:KXS](#)) are trading at \$193.74, at the time of writing which is 15.4% below its record high, valuing it at [a market cap](#) of \$5.29 billion. Despite the [ongoing price correction](#), Kinaxis's stock price has surged by almost 1,400% since the company went public back in June 2014.

While KXS stock has crushed the broader market in the past, let's see if it can replicate these stellar returns in the upcoming decade.

The bull case for Kinaxis stock price

Kinaxis delivers cloud-based software-as-a-service (SaaS) solutions to enterprises that enable clients to accelerate the decision-making process across integrated business planning and the digital supply chain. It aims to leverage artificial intelligence capabilities for users to monitor associated risks and opportunities.

Kinaxis has increased its sales from US\$133.3 million in 2017 to US\$224.1 million in 2020. However, its cost of sales has increased at a higher pace from US\$39.8 million to US\$70.13 million in this period. The company's operating expenses have also doubled in the last three years to US\$133.28 million, which has reduced its operating income to US\$20.77 million in 2020 compared to US\$26.7 million in 2018.

In Q3 of 2021, Kinaxis reported sales of US\$64.4 million (up 17% year over year), while subscription sales stood at US\$44.7 million (up 14% year over year). Its adjusted EBITDA margin stood at 19% in Q3. The company's annual recurring revenue rose by 23% to \$207 million at the end of Q3. The stellar results allowed Kinaxis to more than double operating cash flows to US\$11.25 million in the quarter.

In fiscal 2021, Kinaxis [forecast SaaS sales](#) between US\$248 million and US\$250 million. Its annual recurring revenue is expected to grow between 17% and 20%, while adjusted EBITDA might increase between 14% and 16% in 2021.

What's next for KXS stock investors?

We have seen that Kinaxis derives a majority of its sales from its subscription business. The company's subscription customers enter three- to five-year agreements paid in advance on an annual basis, allowing it to generate cash flows across business cycles.

These contracts are subject to price increases on renewal, which will reflect inflationary increases as well as additional value provided by Kinaxis solutions. Further, existing customers will subscribe for additional applications and increase spending on the Kinaxis platform. An increase in customer spending will be a key revenue driver for the company in 2022 and beyond.

Kinaxis explained, "We believe the power of the subscription model is only fully realized when a vendor has high retention rates. High customer retention rates generate a long customer lifetime and a very high lifetime value of the customer. Our annual net revenue retention rates remain over 100%, which includes sales of additional applications, users and sites to existing customers."

Kinaxis is forecast to increase sales by 42.4% to US\$319 million in 2021 and by 27% to US\$405 million in 2022. Comparatively, its earnings per share are forecast to rise from US\$1.1 in 2020 to US\$1.82 in 2022. We can see that KXS stock is valued at a forward price-to-2022-sales multiple of more than 10 times, while its price-to-earnings ratio is also steep at 82.5.

KXS stock is a quality growth stock but remains vulnerable in the near term due to its steep valuation.

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