Descartes (TSX:DSG): I'm Buying This Tech Stock After Earnings

Description

Descartes (TSX:DSG)(NASDAQ:DSGX) is a Waterloo-based company that provides cloud-based logistics and supply chain management business process solutions. These solutions are focused on the enhancement of productivity, performance, and security of logistics-intensive organizations around the world.

Today, I want to discuss why I'm looking to snatch up this tech stock after its recent earnings release.

How has this tech stock performed so far in 2022?

Shares of Descartes have dropped 7.5% in 2022 as of close on September 7. The tech stock is now down 12% in the year-over-year period. Descartes is not alone, as the broader **S&P/TSX Composite Index** has faced turbulence, especially in the second half of 2022. The typically explosive **S&P/TSX Capped Information Technology** index has failed to recover from the losses it suffered during the volatile spring season.

Here's why investors should be excited about Descartes in the long term

Canadian investors should be particularly interested in the supply chain management software space. Interestingly, Canada has managed to become a global leader in this space. **Kinaxis** is another supply chain management company that has attracted some of the world's largest companies with its industry-leading software solutions.

In late 2021, Allied Market Research estimated that the supply chain management market was valued at $18.7 billion in 2020. The report projects that this market will reach $52.6 billion by 2030. That would represent a compound annual growth rate (CAGR) of 10% over the forecast period. This makes Descartes and Kinaxis worth your attention.

The tech stock showed off its results in September

Descartes unveiled its second-quarter (Q2) fiscal 2023 earnings on September 7. It delivered revenue growth of 18% to $123 million. Revenues were made up of services revenues of $109 million, professional services and other revenues of $10.3 million, and licence revenues of $3.3 million. Services revenues made up the bulk at 89% of total revenue.

The company reported income from operations of $31.5 million — up 21% from the prior year. Meanwhile, net income was down marginally to $22.9 million, and earnings per share remained flat at $0.27. Investors looking for a more accurate picture of a company's profitability may want to utilize EBITDA, which stands for earnings before interest, taxes, depreciation, and amortization. In Q2 FY2023, Descartes reported adjusted EBITDA of $54.0 million. That is up 18% from the previous year.

In the year-to-date period, Descartes achieved revenue growth of 18% to $239 million. Moreover, income from operations jumped 25% to $62.1 million. It posted net income of $46.0 million and diluted EPS of $0.53 — up 11% and 10%, respectively, compared to the first six months of fiscal 2022. Adjusted EBITDA rose 20% to $105 million in the year-to-date period.

Descartes: Why I'm looking to buy today

Shares of this tech stock currently possess a price-to-earnings ratio of 65. That puts Descartes in solid value territory compared to its industry peers. The company is on track for strong earnings growth going forward. Better yet, Descartes also boasts an immaculate balance sheet. This is a tech stock worth snatching up in the first half of September.

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