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Lightspeed POS (TSX:LSPD) Is Canada's Next Tech Darling, But Should You Buy it Here?

Description

In my earlier assessment of **Lightspeed POS** (TSX:LSPD), I'd estimated that the company would deliver fiscal 2020 revenues of around $103 million. However, Lightspeed's latest quarterly report (and its first as a public company) saw fiscal 2019 revenues come in well above consensus estimates, and sales guidance for the upcoming year in the range of $107-110 million.

Looking back, it appears that my initial outlook was overly cautious, and Lightspeed is poising to be the next Canadian tech darling. However, the recent share price momentum coming out of earnings (an increase of ~36% in the past two weeks) suggests that the stock might be due for a pullback, and investors would be better served to wait before jumping on board the Lightspeed train.

Fantastic earnings

Lightspeed delivered remarkable growth during its fiscal 2019. Total revenue for 2019 came in at $77.5 million — an increase of 36% over the previous year, while gross margins increased by 57 basis points to 69.59%. More importantly, recurring software revenues grew 34% to $68.7 million, off the back of a $4 billion gain in gross transaction volumes, driven by an increase in installed locations of ~49,000 up from ~41,000 the year prior.

Last quarter also saw Lightspeed close its acquisition of golf course solutions provider Chronogolf — a deal that I believe will prove to be accretive in the coming quarters, as Lightspeed leverages its platform to target this important retail vertical.

But is Lightspeed really worth $36 per share?

As I mentioned earlier, Lightspeed's stock has rallied in the wake of its earnings report, and based on what we've seen, the momentum is well deserved. Lightspeed's user base growth is extremely impressive, as are the transaction volumes. Furthermore, sales volume per location increased (gross transactions divided by locations) to $294k, up from $257k in 2018, signifying upwards penetration in the medium-sized enterprises space. In the near term, I see growth drivers such as further acquisitions in niche verticals, particularly in the restaurant sector, as well as additions to Lightspeed's suite of customer analytic software.

However, positives aside, the space that Lightspeed operates in is extremely fragmented, and as more options are rolled out from its competitors, we should see margin pressures on Lightspeed's services as well as its premium price tag. At the same time, we can expect incumbent players such as **Square** move in on Lightspeed's turf, while legacy POS operators will begin to offer analytics, inventory management, and customer loyalty add-ons to their existing systems.

On that note, Lightspeed currently has over $207 million in the coffers and no debt on the balance sheet. Considering the competitive landscape, we can anticipate Lightspeed to deploy some of this large cash moat for further acquisitions in order to further its market share.

With strong forward earnings growth in mind, I expect Lightspeed to come slightly above the top end of its guidance for this year at ~$110.2 million and ~$130 million for 2021. Assigning a forward sales multiple of 11 times (compared to Square's 12 times sales multiple), and adjusting for cash, we arrive at a fair value per share of $25. So, while Lightspeed is shaping up to be Canada's next tech darling, its growth prospects are largely priced at these levels, and you are better served waiting for a pullback to the mid- to high-$20 range.

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