This Tech IPO Has Returned 115% in Four Months

Description

Initial public offerings are a great way to extract market-beating returns. These new listings are priced according to their value in the private market, which is generally much lower than their market value on a liquid public exchange where retail investors can deploy capital. Also, most investors don't monitor the IPO market, so there's a chance to get in early and find a rare deal before anyone else.

One such hidden gem has already helped early investors double their money in little more than four months. Montreal-based payment processor **Lightspeed POS** (TSX:LSPD) listed in early-March at $18.10 per share, raising $327 million from public investors. However, the new stock went under the radar and was up only 11% on its first trading day.

Since then, the stock has surged a jaw-dropping 115% and now trades at roughly $41 at writing. Without a doubt, the company has been one of the most valuable and most lucrative IPOs of 2019.

Part of the reason for this surge is that the underlying business seems to be growing faster than expected. In fiscal 2019, the number of installed locations grew from 41,000 to 49,000, revenue was up 36%, gross margins expanded by 57 basis points to 69.59%, and gross transaction volumes topped $14.5 billion.

The company also announced it had closed a deal to acquire golf course solutions provider Chronogolf, which could be accretive to the company's earnings going forward. You could say the company is growing at light speed (pun intended).

Early investors have had a phenomenal run, but is the stock still attractive for new investors? Let's take a closer look.

Valuation

Lightspeed is in a very favourable position at the moment. The market for POS terminals and inventory management software is expected to reach US$108.45 billion by 2025. It's also a highly fragmented space with many small niche players that Lightspeed can acquire with its $207 million cash hoard and low debt ratio.

According to the company's management, they are on track to generate between $110.2 million and $130 million for fiscal 2021. However, the company's margins might come under pressure as established players from abroad enter the market over the next few years.

Let's assume that despite the challenges, the company beats expectations yet again and manages to generate $150 million within the next two years, which implies a premium to the management's most optimistic forecast. Assigning a forward sales multiple of 10 times (as compared to **Square's** 8.75 times trailing sales at the moment), we arrive at a fair value of $17.9 per share.

Adjusting the fair value for cash raises the estimate to $20.5, which is still less than half the company's current market value. In other words, Lightspeed appears to be overpriced.

Bottom line

Lightspeed has had a phenomenal run over the past few months and is undoubtedly one of the most successful IPOs of the year. However, the market's excitement seems overdone at the moment and the stock could be facing a near-term correction.

While the payment processor could certainly prove to be a millionaire-maker over the long-term, investors might want to wait for a better point of entry once the hype subsides.

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