Lightspeed POS (TSX:LSPD): Is This Stock a Buy?

Description

Lightspeed POS (TSX:LSPD) has gone from an unknown tech play to a market darling in recent months, and investors are wondering if the Montreal-based company is set to be the next Canadian tech stock superstar.

Profile

Cloud-based businesses are all the rage these days, as companies turn to third-party software providers to handle services and processes that used to require massive investments in equipment and staff.

Small- and medium-sized firms in particular can now compete with larger corporations by offering services that would have previously been financially impossible.

Lightspeed POS is carving out a niche in the point-of-sale (POS) segment, providing nearly 50,000 customers in 100 countries with a one-stop scalable solution to engage with customers, accept payments, manage their operations, and grow their businesses.

Retailers and restaurants have embraced the company's commerce platform, and Lightspeed now has 800 employees working in offices located in Canada, The United States, Europe, and Australia.

The stock went public earlier this year. At the time of writing, Lightspeed trades at $40 per share compared to $20 in March. The 2019 high is around $49, and the company's market valuations stands at $2.8 billion.

Lightspeed was founded by CEO Dax Dasilva in 2005. He remains the leading figure behind the company's direction and product expansion.

Opportunity

Small- and medium-sized businesses play a significant role in global economic activity and the potential for Lightspeed to capture a fair chunk of the market for its services is the reason investors are flocking to the stock. In its primary target market of restaurants and retailers, the company says there are 47 million businesses worldwide that could use its solutions.

The success of **Shopify** has arguably made it easier for Lightspeed to gain respect and attract investor interest.

Lightspeed's competitive advantage lies in its focus on providing complex small businesses with innovative solutions and powerful products. It is also somewhat unique in that it will target very specific niche opportunities, as is evident with the recent purchase of Chronogolf, a cloud-based software firm that works with golf course operators.

Risks

Lightspeed launched its payments service in early 2019. This should be a lucrative addition to build on existing relationships with customers who are comfortable with the company. However, there is a risk that Lightspeed could kill a valuable stream of client referrals, as it now competes directly with some of its payment partners.

Time will tell how the strategy pans out, but investors should keep it in mind when evaluating the stock. Higher customer churn rates are one potential result if customers are more loyal to the payment partner than to Lightspeed.

On the growth side, Lightspeed is taking advantage of its access to funds and strong stock price to make strategic acquisitions. Scaling up quickly through takeovers comes with integration challenges. So far, the company is doing a good job.

Should you buy?

In the three months ended June 30 the company reported revenue of $24 million and a net loss of $9.1 million. The business burned through $6.3 million in cash in the quarter. This is common in the industry, but investors have to watch to make sure it doesn't get out of control.

Lightspeed has no debt and finished the quarter with $191 million in cash, so liquidity is not an issue in the near term.

The stock isn't cheap, and volatility should be expected, but it appears Lightspeed is making the right moves to carve out a profitable niche in a massive market.

A takeover wouldn't be a surprise at some point, and profitability could come sooner than expected.

If you are searching for a tech growth stock to add to your portfolio, Lightspeed deserves to be on your radar.

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Date
2025/07/23
Date Created
2019/08/21
Author
aswalker