



## Which Stock Has More Upside: Shopify (TSX:SHOP) (USA) or Lightspeed (TSX:LSPD)?

### Description

The [lack of exposure to technology](#) has stunted the growth of Canada's biggest exchange. The **TSX Index** is dominated by four sectors: Financial (32.1%), Energy (16.4%), Industrial (11.6%) and Material (11.2%).

South of the border, the markets have benefited from the rise of **Amazon** ([NASDAQ:AMZN](#)), **Apple** ([NASDAQ:APPL](#)) and **Facebook** ([NASDAQ:FB](#)) among many others. In fact, the Information Technology (IT) sector accounts for 21.20% of the **S&P 500**. This is the largest sector weighting in the U.S.

In comparison, the IT sector accounts for only 5.2% of the TSX Index. If Canadian investors wanted decent exposure to technology stocks, they would need to go south of the border — until recently that is.

### The rise of tech stocks

The tech sector is slowly climbing in terms of importance. In the past year, it has risen from ninth (out of 11) to sixth in terms of sector weighting on the TSX. It won't be long before it leapfrogs over the Communications sector, which accounts for 5.5% of the TSX.

The sudden rise of the IT sector has been due in large part to the outperformance of Canada's top tech stocks: the DOCKS. Leading the way has been **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). Its performance has been nothing short of remarkable.

Since its IPO in 2015, the company has returned 1,363%. To put that into perspective, a \$10,000 investment in Shopify when it was first listed would be worth \$136,600 today. Shopify continues to deliver year over year.

It was a tough year for the markets in 2018 as the TSX finished the year in the red by double digits. By its standards, Shopify also a rough go, returning only 38% last year.

In 2019, the company's stock is up 170% and Shopify is hitting 52-week highs on an almost weekly basis. At the moment, there is no better tech stock than Shopify. Or is there?

Earlier this year, a little-known tech company IPO'ed without much fanfare. **Lightspeed POS** ([TSX:LSPD](#)) began trading on the TSX in March of this year. After an initial bump, the company traded sideways for the first few months of its public life. Lightspeed then announced strong fourth-quarter results and announced its outlook for the year.

The company's stock price skyrocketed, and it's now trading up 111% from when it IPO'ed in March. As the markets digest its potential, the comparisons to Shopify are hard to ignore. It operates in a similar space with similar growth prospects. In 2018, revenue grew by 36% and it had guided to 38-43% growth in 2020.

There's a reason I used the past tense. Only a quarter after issuing guidance, management revised upwards; it now expects revenue growth in the 43-48% range. Outside of Shopify, there are no tech stocks that can match these expected growth rates.

Analysts expect 45% growth in 2020 and further 48.50% growth in 2021. Not since Shopify has a tech stock been projected to grow at such a rapid pace.

## Which is the better buy today?

As discussed, Shopify and Lightspeed have similar expected growth rates. Does valuation set them apart? As neither company is currently profitable, it's best to look at valuation in terms of price-to-sales and enterprise value-to-revenue. This is best practice when valuing high growth stocks.

As of writing, Shopify is currently trading at 44.4 times sales and at an enterprise value (EV) of 43.04 times revenue. Lightspeed is trading at slightly cheaper valuations with a P/S of 41.42 and an EV/Revenue ratio of 40.76.

It's worth pointing out, however, that neither one is particularly cheap. However, both are growing at a pace unmatched by others in the market. Anyone who avoided Shopify due to high valuations has missed out on considerable gains.

At today's prices, Lightspeed appears to offer the best value. It's early days for the company, but there are already signs that the company's growth prospects are under-estimated. Given this, I pick David over Goliath and expect Lightspeed to outperform the IT sector leader over the next year.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:LSPD (Lightspeed Commerce)
3. TSX:SHOP (Shopify Inc.)

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## **Author**

mlitalien

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