Can Uber and Lyft Bounce Back After Hitting All-Time Lows?

Description

The ridesharing industry is driving in reverse these days, with **Lyft** (NASDAQ: LYFT) and larger bellwether **Uber** (NYSE: UBER) hitting new lows last week.

The bearish narrative isn't a secret. Both companies are losing a lot of money. Lyft is subsidizing the fast growth of its personal mobility platform. Uber's similar but larger platform is growing significantly slower, but it's subsidizing its faster-growing Uber Eats service through aggressive promotions for drivers and diners. The end result is that Uber and Lyft are each checking in with 10-digit deficits year to date, but investors knew that red ink would be par for the course through the next few years.

The two stocks didn't go public until earlier this year, so technically we're talking about all-time lows for Uber and Lyft. It's still a surprise, as both seemed to be moving nicely higher after bottoming out on May 13. Uber and Lyft traded as much as 30% and 45% higher, respectively, weeks after their mid-May lows — but both stocks have more than given back those gains.

Hailing a ride before surge pricing kicks in

There is an opportunity here for both broken IPOs. Deutsche Bank analyst Lloyd Walmsley initiated coverage of Lyft with a buy rating on Thursday, arguing that the shares could be bottoming out here. Walmsley gets the concerns surrounding the end of the IPO's lock-up period, regulatory screws tightening in California with a chance of spreading nationally, and the market's growing impatience with unprofitable stocks trading at high revenue multiples.

Walmsley's counter to the naysayers is that Lyft is coming off another quarter of strong growth and that most of the concerns are already priced into the discounted shares. Given the significant barriers to scale — the two leaders posting billions in annual losses — he sees this as a rational duopoly in the near future.

Uber and Lyft aren't going out of business anytime soon despite the steep losses in both comps, but the chances are slim that we'll see a third material competitor. The same factors scaring awayinvestors fearful of losing money also apply to any potential rival.

Lyft grew its top line at a 72% clip in its latest quarter, and that's impressive. Uber's business is plodding along at a much slower pace — as revenue rose 14% in the same three-month period with gross bookings climbing 31% — but it has a strong global footprint as well as more-diversified revenue streams than Lyft. Both companies may be several years away from profitability, but as long as the individual players and the niche itself are growing, these won't be broken IPOs forever.

The trends are pretty unmistakable. We're not going back to taxis. Mass transit should continue to improve, but it will never match the speed and convenience of ridesharing for folks who can afford the upgrade. Uber and Lyft have the market cornered.

Buying into IPOs is risky, and retail investors who bought into either of these two offerings when they went public are underwater. But Uber and Lyft should beat the market in the long run, even if that hasn't been the case in their first few months of trading.

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1. NASDAQ:LYFT (Lyft, Inc.)
2. NYSE:UBER (Uber Technologies, Inc.)

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