Snap Is Now Among the Best Performing Tech Stocks of 2019

Description

Here's something you don't hear often: **Snap** (NYSE: SNAP) is outperforming its peers.

The company behind the disappearing-message app has seen its shares rise nearly 200% year-to-date, eclipsing the entire technology sector. It's a far cry from two years ago, when it debuted on the stock market only to plunge as concerns about its ability to grow mounted. At the start of this year, Snap had already lost $20 billion in market value.

It has since recouped some of those losses. When Snap had its IPO in March 2017, it was worth $31 billion; its market cap now stands at $22 billion. It's also making investors more money than its rivals are. **Facebook** (NASDAQ: FB) and **Pinterest** (NYSE: PINS) are enjoying double-digit growth in their share prices, but it's not nearly the upswing in Snap's stock. Year to date, Facebook is up 42% while Pinterest is 16% higher.

So what's behind this newfound love for Snap?

Strong earnings and new revenue opportunities are what appear to be driving shares.

For its second quarter, which it reported on in July, Snap had a narrower loss than Wall Street anticipated. Revenue of $388 million also topped forecasts. More importantly, Snap reported higher-than-expected daily active users (DAUs), a key metric for assessing its growth. For the quarter, it had 203 million DAUs, higher than the 192 million Wall Street was looking for.

In prepared remarks, CEO Evan Spiegel said the growth in its community, engagement, and revenue is due to transitions the company has undergone in the past year and a half. It was the second quarter in a row that its user base increased. For the third quarter, it's forecasting DAUs of 205 million to 207 million.

Snap goes back to its roots

When Snap went public two years ago, it had high hopes of becoming the next Facebook. It envisioned a world in which Snap was used by everyone. But the app and its image filters and lenses have really only resonated with younger users.

Adults, including advertisers, found it difficult to use. After failed attempts in 2018 to appeal to the masses and a redesign that led to a decline in users, Snap went back to its roots. It's now focused on those younger users, who are more engaged thanks to advanced technology such as augmented reality.

During the year, it rolled out a lens that enabled users to see what they would look like as the opposite sex and another one that enabled them to see how they would look as babies. They were hugely popular, drawing millions of people to its overhauled Android app and boosting engagement. Investors can expect more of that in the future.

Gaming brightens the outlook

But it's not just its core user growth that has investors giddy. The company is also going after new revenue opportunities. This spring it rolled out Snap Games. While Snap has yet to provide granular details about how the new platform is doing, Spiegel has said it's doing well. It's designed for users to participate in gaming with their friends.

The platform has at least one Wall Street firm excited. Evercore ISI analyst Kevin Rippey recently raised his investment rating on the stock and upped his price target to $20 a share because of its gaming business. The analyst thinks it will be the new growth driver for Snap, generating as much as $350 million in revenue each year by 2022.

"In our view, the near-term picture for Snap's fundamentals remains extremely positive with respect to user trends, revenue, and improved profitability," Rippey wrote in a recent research report. "Adding to this, and informing our upgrade, is the view that over the medium and longer-term, gaming provides Snap a credible vector of incremental growth, naturally fitting with the platform's differentiated appeal to younger cohorts looking for innovative digital experiences to extend real-world relationships."

Whether or not Snap can ever achieve $350 million in annual revenue with its gaming platform is anyone's guess. But with its user base and engagement growing, advertisers are clamoring to stand out on the platform, which bodes well for a social media company that was written off shortly after it debuted as a public company.

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