ALERT: Canada's Top Tech Stocks Are in a Free Fall!

### Description

September was a brutal month for Canada's top tech stocks. After getting off to a great start this year, the S&P/TSX Capped Information Technology Index fell 8.3% in September. Leading the slide was **Shopify** (TSX:SHOP)(NYSE:SHOP), which fell about 25%. Similar stocks like **Lightspeed POS** (TSX:LSPD) and **Open Text** (TSX:OTEX)(NASDAQ:OTEX) also tanked after rising considerably earlier in the year. Lightspeed's September losses were a major disappointment after the company had one of the few successful tech IPOs of 2019, while Shopify's decline was the first major interruption to its four-year bull run.



The question investors have to ask themselves is whether the recent dip is a temporary condition or a new normal. It's undeniable that the TSX's trendiest tech stocks have gotten expensive, which raises the possibility of continued losses. However, with strong growth metrics, these stocks could yet have upside potential.

In this article, I'll discuss the three Canadian tech stocks that have fallen the most and analyze whether they have a chance of recovering.

## Shopify tanks after hitting record highs

Shopify has been one of the most popular Canadian tech stocks since its 2015 IPO, when it debuted for $17 and closed its first day of trading at $35. Since then, it has risen over 1,000%, making it a 10-bagger. For the longest time, Shopify's rise to the top was largely uninterrupted, with few notable dips. In September, however, the stock fell 25%.

Possible reasons for Shopify's decline include a steep valuation and decelerating growth. Trading at 36 times sales and 21 times book value, Shopify is easily one of the most expensive stocks on the TSX. Although it has strong growth — revenue grew at 48% year over year in the most recent quarter — that growth has been decelerating. In past quarters, Shopify was growing sales at 60% year over year; the latest figures are a far cry from that. If further deceleration occurs, then a 36 price-to-sales ratio will be hard to justify, to say the least.

## Lightspeed struggles to regain momentum

Lightspeed was one of the most successful tech IPOs of 2019, rising over 100% in the months after its offering. In September, however, the stock started losing ground, likely being impacted by the selloff in Shopify shares.

Lightspeed has several things going for it, that provide optimism for it regaining ground. The stock is cheaper than Shopify — although still expensive — and it posted solid revenue growth (36% year over year) in its most recent quarter. The company is already processing $13 billion worth of transactions in 100 different countries globally, which shows that it is rapidly gaining market share. The point-of-sale industry is expected to grow at 11.6% annually for the next few years, which means that Lightspeed is in a solid industry where there is plenty of room to grow. However, with a price-to-sales ratio of 30, this stock is mighty expensive and may have a hard time justifying its asking price.



## Open Text loses ground

Open Text is another tech company that's been losing ground recently, having fallen 7.4% since July 29. Unlike Shopify and Lightspeed, Open Text is not insanely valued. With a P/E ratio of 38, it's actually relatively cheap for a tech stock. However, it also has much weaker growth metrics than the other two stocks mentioned in this article, having grown its earnings by just 16% in its most recent quarter. Granted, that's a fairly solid growth rate overall. However, it's not exactly the kind of frothy growth that investors expect from hot tech stocks, which might explain why this stock has been treading water for most of this year.

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:LSPD (Lightspeed Commerce)
4. TSX:OTEX (Open Text Corporation)
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andrewbutton