



Shopify (TSX:SHOP) and Lightspeed (TSX:LPSD) Tank Amid Sell-off

Description

Shares of Canada-based high-growth technology companies **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Lightspeed** ([TSX:LPSD](#)) fell 6.3% and 7%, respectively on October 22, 2019.

The two companies have lost considerable value since September this year after touching record-highs. Investors are sweating over stock valuations of high-growth companies, resulting in a market sell-off.

The growing uncertainty of the trade war coupled with a sluggish macro environment and fears of a recession have made investors cautious.

Shopify is trading 28% below its record high

Shopify stock rose to an all-time high price of \$543.76 at the end of August 2019. It has since declined 28% to currently trade at \$392.02 at writing. I had first identified Shopify as [overvalued in September this year](#) as well, due to its premium valuation.

Despite its recent decline, Shopify is valued at \$45.2 billion, or 22.3 times forward sales. The stock is trading at a forward price to earnings multiple of 306. Analysts expect Shopify to grow sales by 43.9% in 2019 and 35.1% in 2020.

They also estimate earnings per share to rise by 63.2% in 2019, 58.1% in 2020 and by an annual rate of 53% in the next five years.

Though the growth, metrics remain robust does the stock command such an expensive valuation? Shopify shares have been absolutely phenomenal since its IPO in May 2015 and have returned over 1,000% since then. This rapid growth also meant that investors will be vulnerable in a downturn.

While the tech sell-off has impacted Shopify, investors were also wary about its secondary offering and acquisition of 6 River Systems. Shopify is looking to invest over a billion dollars in fulfillment centres and 6 River Systems is a leading player in the collaborative warehouse fulfillment segment.

This acquisition is valued at \$450 billion. Shopify will look to leverage 6 Rivers' expertise in cloud-based software and its fleet of collaborative mobile robots to optimize the supply chain.

Lightspeed is trading 36% below its record high

Similar to Shopify, Lightspeed stock has lost steam in the last few months. LSPD is currently trading at \$31.57, which is 36% below its all-time high of \$49.67.

Lightspeed is valued at \$2.66 billion, or 23 times forward sales. Analysts expect Shopify to grow sales by 47.3% in fiscal 2020 (ending in March) and 50.4% in 2021. Though currently unprofitable, analysts expect LSPD to increase earnings by 93.9% in 2019 and 50% in 2020.

LSPD might post an adjusted profit by the fourth quarter of fiscal 2022. The stock has returned 70% since its IPO earlier this year.

The verdict

The broader markets are still trading close to 52-week highs. Should fears of a recession come true, investors can expect Shopify and Lightspeed to lose significant value. However, the two stocks remain solid long-term bets.

They are part of high growth business segments with an expanding addressable market. Will it be prudent to buy these stocks at major dips and average out losses going forward?

Analysts remain bullish, and expect Shopify to rise by 21% in the next 12-months. They also estimated LSPD to rise 15% in the same period.

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Author

araghunath

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