



Tech Investors: Be Careful With This Canadian Tech Darling

Description

The North American technology sector just doesn't seem to want to slow down, despite numerous headwinds that continue to threaten stocks broadly of late. While Canada's tech sector is much smaller than that of the United States, there are indeed a few Canadian technology players that have seen valuations balloon in recent years. This follows the trend we see on the NASDAQ since the last recession.

Lightspeed POS

Lightspeed POS ([TSX:LSPD](#)) is a newcomer to the Toronto Stock Exchange (TSX), debuting approximately one year ago. This company has skyrocketed higher to nosebleed valuation levels. Many investors buy into the growth story but are concerned as to the level of upside ahead. Here's my take on the bull and bear case for owning a company like Lightspeed.

Bull case

Like many other technology names benefitting from transaction levels, Lightspeed has seen a boost from rising retail transaction volumes. This is a key metric investors keep their eyes on. Lightspeed has the ability to continue to grow very quickly in what continues to be a very fragmented point-of-sale (POS) market. In addition, Lightspeed has access to additional liquidity via equity markets. Therefore, many investors are banking on a pathway for Lightspeed to grow its way to profitability via acquisitions as well as organically.

Bear case

The current valuation of Lightspeed is reminiscent to me of the hype seen around the Canadian cannabis sector a couple of years ago. Those banking on revenue-growth rates that are out of this world may be disappointed at the end of the day when investors begin demanding profitability. Lightspeed is still not profitable. Many key long-term, conservative investors see profitability as a key

metric. Therefore, this poses a real problem for shareholders if the company's retail investing base begins to flee en masse. Some recent reports of insider selling at Lightspeed make those bearish on the company extremely nervous, especially considering the upward momentum this stock has had of late.

Bottom line

At this point in time, I definitely find myself in the bearish camp with respect to Lightspeed, mainly due to the company's valuation. As an investor who focuses on fundamentals first, Lightspeed is a company I simply won't touch until there is a reasonable track record of profitability. I view these "revenue-growth-at-any-cost" stocks as highly dangerous in the currently environment, particularly if a recession or serious economic downturn does materialize.

Stay Foolish, my friends.

CATEGORY

1. Investing
2. Tech Stocks

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1. canada
2. recession
3. tech

TICKERS GLOBAL

1. TSX:LSPD (Lightspeed Commerce)

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