



Better Buy: Lightspeed POS (TSX:LSPD) vs. Shopify (TSX:SHOP)

Description

The COVID-19 pandemic has made investors more reactive than responsive. In these uncertain times, technology stocks witnessed unprecedented gains and losses. **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock rose more than 100% YTD (year to date) while **Lightspeed POS** ([TSX:LSPD](#)) stock fell 25% YTD.

Both are cloud-based software companies that earn revenue through subscriptions and transaction volumes. However, the pandemic-driven lockdown had a contrasting impact on both of them.

Lightspeed and Shopify: Before and after the COVID-19 pandemic

Lightspeed offers POS (point-of-sale) hardware and cloud-based payment, inventory, employee, and customer management solutions. Its major clients are small- and medium-sized businesses (SMBs) like restaurants, hotels, and brick-and-mortar retailers. Last year, its stock rose 97% after its March IPO on the back of 50% growth in revenue. Investors became bullish as [90% of its revenue was recurring](#) in nature. It is not yet profitable and is burning cash.

However, Lightspeed's growth trajectory has come to a screeching halt after the coronavirus-driven lockdown temporarily closed restaurants and physical stores. The company is struggling to maintain its existing revenue, as most of its SMB clients are at risk bankruptcies. It is trying to retain its clients by offering subscription discounts and deferred payment arrangements, but the outlook remains uncertain.

Shopify offers an e-commerce platform that helps SMBs and large enterprises set up their online stores and provides supporting services like shipping, capital, retail POS, and online payments. Shopify stock rose 180% last year on the back of 47% growth in revenue. What made investors excited was the growing mix of large enterprises and increase in its gross merchandise volume. Moreover, the company reported a positive cash flow for more than three consecutive years.

Shopify has become the biggest beneficiary of the lockdown. As consumers stayed at home, they

switched to online shopping. The company saw a 62% surge in the number of new stores on its platform. It also witnessed the Black Friday-level traffic on its website. The longer the lockdown, the higher will be the demand for Shopify's services, driving its revenue to new highs.

Investors have priced in the COVID-19 impact

When the COVID-19 outbreak hit the market in March, Lightspeed stock bottomed at \$12 from \$40 in January. Since then, it has grown 145% and is trading around \$25. The company presents an attractive long-term growth story, with Fact.MR [forecasting](#) the cloud-based POS terminals market to grow at a CAGR 10% by 2029. But its short-term outlook is challenging. Its growth depends on the re-opening of the economy and consumers returning to restaurants and retail stores. As the Canadian economy falls into a recession, consumer spending could take some time to recover.

With no earnings and negative cash flows, Lightspeed is more of a speculative bet. If the company weathers the COVID-19 crisis with its \$300 million in cash reserve, there is hope. If it returns to its 50% revenue growth trajectory in the long term, the stock can deliver up to 15-fold increase like Shopify. If it fails to withstand the economic downturn, the stock could fall to \$0.

In the case of Shopify, the stock has doubled from around \$550 in March to above \$1,050 in early May. Investors flocked to buy the stock, as it presented a growth opportunity in these uncertain times. At this juncture, the stock is priced for the next 10 years.

How to trade in software stocks amid the pandemic

Shopify and Lightspeed are high-risk, high-reward stocks. Investors should take calculated risks while trading in these stocks. Shopify is already priced for perfection, leaving limited upside potential. Hence, it is the right time to cash out profits.

Lightspeed is trading at an attractive valuation, with significant upside potential. But there is too much uncertainty around the stock to place big bets. Hence, it would be wise to make a small bet that can minimize the risk if the stock falls and give meaningful returns if the stock soars.

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2. TSX:LSPD (Lightspeed Commerce)
3. TSX:SHOP (Shopify Inc.)

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Date

2025/09/17

Date Created

2020/05/13

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