



Lightspeed POS (TSX:LSPD) Just Surged 208%: Should You Buy?

Description

Don't look now, but **Lightspeed POS** ([TSX:LSPD](#)) just skyrocketed 14% in a single trading session to hit new heights not seen since before the coronavirus crash. The commerce-enabling tech sensation experienced an unforeseen (at least through the eyes of many investors) surge in the demand for its services, as small- and medium-sized businesses (SMBs) scramble to any embrace anything that can improve their odds of surviving this unprecedented [crisis](#).

Back in late March, when the market was around its bottom, I'd pounded the table of Lightspeed stock, noting that the sell-off had been overblown beyond proportion (shares collapsed over 70%) and that the stock could have a multitude of upside once investors appreciated Lightspeed's **Shopify**-like ([TSX:SHOP](#))([NYSE:SHOP](#)) characteristics.

The mispricing in Lightspeed stock appears to have already been corrected

Fast forward to today, and the stock has more than tripled off those March 18th lows, now up 208%. Although I'm a huge fan of the early-stage growth company, its resilience through this pandemic, and the room to run in its lucrative market, I'm no longer enticed by the valuation to be had at this juncture. If you bet on the stock on the way down, as I've recommended in [many prior pieces](#), now would be wise to take some profits off the table, as you look to play with the house's money.

After the most recent pop in the stock, Lightspeed stock finds itself trading at nearly 18 times sales. While I believe Lightspeed POS deserves to trade at a lofty premium, one has to draw the line somewhere, and after more than tripling over a few months, I think that line has been passed and would encourage new investors to consider waiting for a meaningful pullback, which could present itself over the next few months.

Lightspeed's story may rhyme with Shopify's, but there are major differences

Shopify demonstrated its resilience in the face of this economic shock, and its customer adoption rate revealed that it was riding high on pandemic tailwinds. While Lightspeed has shown it's pandemic-resilient, with similar pandemic tailwinds that are driving growth in segments across the board, investors ought to realize that this pandemic is more of a double-edged sword for Lightspeed versus the likes of Shopify.

On one side of the sword, SMBs that have seen their sales pressured by the coronavirus pandemic have been rushing to Lightspeed's promising platforms. Many SMBs will discover what they've been missing out on; should they survive this crisis, they'll likely remain Lightspeed customers for life, opening up a huge door of future upselling opportunities.

On the other side, a considerable chunk of Lightspeed's client base is comprised of firms, specifically SMBs, that are sitting at "ground zero" of this crisis. We're talking restaurants and mom-and-pop physical retailers, many of which will feel uneasy reopening, even as government-mandated lockdowns are lifted.

While Lightspeed does have a promising digital platform, it's not an e-commerce pure play like a Shopify. And if a bear-case scenario ends up happening with this pandemic, with further lockdowns coming on and off over through 2020 and 2021, a greater portion of Lightspeed's client base may be at even higher risk of going under. If such a scenario happens, Lightspeed could witness a declining client base, and the stock could be headed for another vicious correction.

As such, investors should be aware that just because Lightspeed has demonstrated resilience in this pandemic thus far does not mean it'll continue to do so should it worsen and drag on over the long haul given its greater exposure to more vulnerable SMBs. I view Lightspeed's magnitude of pandemic resilience as far lower than Shopify's. If we're in for a timely advent of a vaccine, though, Lightspeed stock could have a heck of a lot more room to run.

Foolish takeaway

Given the wide range of possibilities with this pandemic and the now rich valuation on the stock, I'm no longer a fan of Lightspeed stock's risk/reward equation with shares at \$37 and change. If you've already doubled or tripled your money on the name, it can't hurt to take your principal off the table before Mr. Market has a chance to claw back some (or all) of the gains.

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TICKERS GLOBAL

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

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