



Forget Overvalued Lightspeed (TSX:LSPD) Stock: Buy This Tech Company Instead

Description

Shares of **Lightspeed POS** ([TSX:LSPD](#)) are on fire, rising over 209% since its March lows. The surge in Lightspeed stock is backed by the incremental demand for its products and services, as an increased number of SMBs (small- and medium-sized businesses) transition online to meet growing customer needs.

Lightspeed, through its commerce-enabling platform, provides a plethora of services to the SMBs that supports payments, e-commerce, supply chain, and analytics. The pandemic has forced SMBs to migrate towards omnichannel operations to offer services like online ordering and delivery. The sizeable shift from offline to online acts as a tailwind for Lightspeed and is likely to support its growth in the coming quarters.

Even in the pre-pandemic phase, the company has impressed with its financial performance. Lightspeed's [gross transaction volume](#) has grown at a CAGR (compound annual growth rate) of 46% since the fiscal year 2017. Lightspeed's top line increased at a CAGR of 41% during the same period.

Lightspeed remains well positioned to capitalize on the growing demand, which should accelerate its growth rate.

However, when I look at the tech company's valuation, its charm slowly fades away. Lightspeed's next 12-month EV-to-sales ratio stands at 11.4, which is nearly triple the industry average. Besides, its stock has been highly volatile and is up only about 3% this year. Also, the company is not profitable and offers no dividend.

If only high-growth potential is your investment criteria, Lightspeed is the right stock for you. However, if you are looking for a better bargain, steady returns, and an equally good growth potential, consider buying this **TSX** tech stock.

A better tech stock

So far, TSX tech stocks have performed pretty well with the majority of them outgrowing the benchmark index by a considerable margin. One such stock is **Absolute Software** (TSX:ABT). It is up nearly 66% this year. Moreover, it has grown over 80% in one year.

Absolute Software continues to witness steady demand for its products and services, which support its revenues and earnings. The demand for its offerings, including the security and management of computing devices, applications, and data, remains high given the sizeable shift in the number of people working and learning remotely. The rapid adoption of e-learning and working from home magnifies Absolute Software's growth potential.

Absolute Software's recurring revenue base has consistently grown, thanks to its ability to increase the [Annual Contract Value base](#). Moreover, its customer retention rate remains very high. Investors should note that the company has zero debt in its balance sheet and few direct competitors, which bode well for future growth.

Absolute Software stock appeals on the valuation front as well. Its forward EV-to-sales ratio of 3.8 is lower than the industry average of 4.3. Also, it trades at a lower forward price-to-cash flow ratio, when compared to the peers.

The company is profitable and generates a significant amount of cash flows, which supports its dividends. With solid underlying business, a decent dividend yield of 2.2%, and low valuation, Absolute Software stock is a better buy.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:ABST (Absolute Software)
2. TSX:LSPD (Lightspeed Commerce)

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