Is This 500% Gainer TSX Tech Stock About to Reverse the Course?

Description

TSX tech stocks have substantially outperformed Canadian broader markets this year. However, one emerging tech company stock that has notably stood out is **Facedrive** (TSXV:FD). Shares of the ride-hailing company Facedrive has soared more than 500% this year, beating **Shopify** and other top-gainer TSX stocks by a wide margin.

What's behind Facedrive's growth?

What differentiates Facedrive from traditional ride-hailing platforms is that it offers riders options like electric vehicles and hybrids. Riders can also check the carbon footprint after each of their rides.

In the last few quarters, the company reported substantial revenue growth driven by a higher number of rides and subscriptions. The same drove the stock from $2 to $28 within a span of just seven months this year. However, after substantial volatile sessions recently, the stock is trading close to $14 as on July 23.

Hindenburg's take on Facedrive

However, Hindenburg Research — a forensic financial research specialist — issued a very negative report about Facedrive on July 23. Hindenburg sees flaws in Facedrive's business model and accuses the tech company of alarming stock marketing expenses.

Notably, Facedrive stock fell more than 6% after the release of this report. It has given Facedrive stock a price target of $0.70 — a sizeable downside of 95% against Thursday's close.

While some of the accusations like Facedrive's related party transactions certainly look disturbing, I think others, like the CEO's underperformance in another company, seemed only to strengthen Hindenburg's short thesis.

Another major argument the research company makes against Facedrive is its steep stock marketing expenses. The ride hailer agreed to pay $8.2 million in June 2020 to a relatively less-known company for promotion in the form of shares.

The amount is notably higher than Facedrive's last year's operating expenses, as Hindenburg points out. I think the amount is certainly steep, but last year's operating expenses and share-based expenses this year are incomparable.

I think Hindenburg rightly points out the slower pace of Facedrive compared to peers like **Uber** and **Lyft** . Founded in 2016, the Canadian ride hailer has only managed to expand its services to a handful of cities in Canada.

Notably, ride hailing is not a high barrier to entry industry. More importantly, established players building a more climate-friendly fleet seems more of a visible risk for Facedrive.

Encouraging revenue growth

Let's get down to numbers. Facedrive's revenues indeed paint an attractive picture for the future.

In 2019, the company reported revenues of $599,104, which was an increase from $13,579 in 2018. In the first quarter of 2020, it posted revenues of $387,901, representing a 10-fold increase year over year. Facedrive earns revenues from rider fees and licensing arrangements.

FD stock has seen tremendous growth this year, likely driven by this above-average top-line growth. However, the stock looks expensive and might continue to trade extremely volatile.

While FD looks like a high-risk, high-reward bet at the moment, it should be a classic case for investors to research. Its numbers in the next few quarters will be important to watch. If the top-line growth continues as it has been in the last few quarters, Facedrive will likely be better able to endure the negative claims and justify the stock price.

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