



Could This Stock Be the Next Lightspeed POS (TSX:LSPD)?

Description

Payments startup **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)) has been the ultimate turnaround story this year. The team's decision to pivot away from retail and restaurant payment processing to e-commerce at the start of this crisis has helped Lightspeed stock surge 230% over the past six months.

However, to sustain this pace of wealth creation, the company must protect its market share from emerging competitors. One such competitor recently went public and has tossed its hat in the same arena as Lightspeed. Montreal-based **Nuvei** ([TSX:NVEI](#)) is an electronic payment processor that [started trading on the Toronto Stock Exchange](#) last week.

Here's a closer look at Nuvei's business model and its potential to challenge Lightspeed's dominance in the multibillion-dollar payments market.

Nuvei's moat

Put simply, Nuvei's competitive advantage over Lightspeed stock is scale. Even though Nuvei was listed *after* Lightspeed, the company is older and larger than its more well-known rival.

Nuvei was launched two years earlier than Lightspeed. As of this year, the company generated \$245.8 million in annual sales, compared to Lightspeed's \$120 million. Since the IPO, Nuvei is also worth more than its rival. The market capitalization is \$5.7 billion, compared to Lightspeed stock's \$3.6 billion.

This difference in size offers Nuvei economies of scale. In other words, the company can borrow more capital at cheaper rates or raise more funds from issuing equity. This helps it expand faster than smaller rivals. Larger scale also means Nuvei can be profitable with lower margins, making its service more competitive than smaller rivals.

So, Nuvei is in a better position to serve the global payments market than Lightspeed. However, the latter is better known which means Lightspeed stock is trading close to a historic high. The difference in valuation could create an opportunity for potential Nuvei investors.

Lightspeed stock valuation

At the time of writing, Lightspeed stock is trading at a price-to-sales (P/S) ratio of 31.77. Meanwhile, Nuvei is trading at a P/S. ratio of 23. In other words, Nuvei is significantly cheaper from a valuation standpoint.

This gap could create an opportunity for investors. Nuvei has the potential to deliver growth rates and margins that are comparable to Lightspeed, since they're in the same industry. However, if Nuvei's stock closed the gap in valuation with Lightspeed stock, that could imply 38% upside from its current price.

Nuvei stock perfectly fits the description of a reasonably-priced growth opportunity. I wouldn't be surprised if this one was a multibagger in a few years.

Bottom line

The global payments industry is a \$2 trillion market, according to McKinsey. Digital payments, particularly for online shopping and digital services, is accelerating like never before.

Lightspeed stock and its newer rival Nuvei have plenty of potential to grow. However, Nuvei is a larger company which could make its cost structure more efficient and make its platform more competitive. Meanwhile, the stock's valuation is lower than Lightspeed.

For investors seeking a reasonably-priced growth opportunity, Nuvei seems like an ideal bet.

CATEGORY

1. Investing
2. Tech Stocks

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2. TSX:NVEI (Nuvei Corporation)

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