Facedrive Stock Is Down 47% Since August: Is Now the Time to Buy?

Description

Facedrive (TSXV:FD) has been one of the hottest stocks in Canada this year. At one point, it was up around 1,000%, as investors got excited on the news that it would be acquiring Foodora's assets and expanding into food delivery. The talk of the company's expansion not just in Canada but around the world had many people seeing dollar signs. However, that hype has started to cool down significantly.

Its shares finished the month of July at $20 — today, it trades at nearly half that tally, finishing last week at just $10.60.

Why are investors selling shares of Facedrive?

A big reason the stock's likely been crashing in recent months is that its valuation was obscene to begin with, and many investors have been cashing out. Even today, the company has a market cap of close to $1 billion, trading at a price-to-sales multiple of over 1,000.

When the company released its most recent quarterly results this month, its revenue was below $94K, down from $133K in the same period last year. Its ride-share business continues to make up "substantially all of its revenue," according to the company. Facedrive blamed the decline in revenue on COVID-19 and a fall in demand for ride-sharing services.

The concern for investors is that many delivery and pickup services are on the rise amid COVID-19, but Facedrive's ride-sharing business isn't thriving. As people are cutting down on the number of trips they make and try to stay home, it could put into question the company's future growth, especially if the pandemic changes consumer behaviour. And that makes it difficult to justify paying such a hefty premium for a company that has minimal sales and that reported a $9.4 million loss last quarter.

But the potential is still there, especially since Facedrive is still in the midst of expanding its business, especially in food delivery. The problem is growing that business. In the first six months of 2020, Facedrive has burned through $2.7 million in cash from its day-to-day operating activities compared to just $703K during the same period last year. And as cash gets low, Facedrive will need to issue more shares. Just this year, Facedrive's raised $6.8 million in cash from issuing common shares. And share dilution is a reason why the stock could continue to fall further. As more shares are issued to fund the company's growth, there's more downward pressure on the stock price.

Should you invest in Facedrive today?

Facedrive is struggling right now, and there's just not enough optimism to justify paying such an astronomical value for this stock. There's lots of risk here, and in an industry with fairly low barriers to entry, even if Facedrive grows, it may not be able to dominate the market the way it would need to for it to be a good long-term buy. And in the short term, COVID-19 could put significant pressure on the business and its cash flow.

Even if you're bullish on Facedrive's future, the safe move would be to wait on the sidelines for now. The stock has climbed far too fast this year given its sales numbers, and it's likely headed even lower in the weeks and months to come.

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Date
2025/08/17

Date Created
2020/10/19
Author
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