



Stock Market Updates: How Are These 4 Companies Using Capital?

Description

The stock market is a reflection of what's happening in the corporate jungle. The pandemic has changed the way companies do business. Capital is the king. The capital-intensive companies are saving it, and less-capital intensive companies are raising it. Companies that adapt to the new normal of the COVID-19 economy will survive, and the rest will either merge or liquidate. Many small oil companies and airlines have already started walking on the path of consolidation and bankruptcy.

Past crises show that hard cash is a safe haven. The government cash benefits boosted the stock market, and near-zero interest rates increased borrowing. Many companies grabbed this opportunity and raised capital in the equity and debt markets. They increased liquidity, as there are fears of a looming economic recession, which would dry up capital in the market.

Which companies are raising equity capital?

Lightspeed POS ([TSX:LSPD](#))([NYSE:LSPD](#)) and **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) have a low capital requirement. In the second quarter, they had a strong net cash position of \$192 million and \$3.9 billion, respectively. They enjoyed investors' bullishness, as the pandemic-driven lockdown increased traffic on their platform. They are leveraging this bullishness to raise equity capital. Lightspeed raised US\$397.7 million from its U.S. initial public offering. Shopify [raised \\$1.14 billion through an equity offering](#).

Both companies will use these proceeds to strengthen their balance sheets and fund their growth strategies like acquisitions and new product launches. Lightspeed has recently expanded its offerings to golf clubs with the acquisition of Chronogolf. It plans to expand its geographic reach beyond North America by deploying its solutions in as many customer locations as possible. It has also introduced new features like order ahead, curbside pickup, Lightspeed subscription, and Lightspeed Capital.

Shopify is also adding new features like the abandoned cart. It is expanding its platforms by offering omnichannel solutions that immerse online and physical shopping experience. But the biggest investment is in Shopify Fulfillment Network.

Which companies are raising debt capital?

On one side, Shopify and Lightspeed are raising capital to grow their businesses. On the other side, **Air Canada** ([TSX:AC](#)) and **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) are raising debt to fund their losses. Both AC and Suncor are burning cash, as the pandemic has brought their operations to a screeching halt.

AC has raised almost \$6 billion in new equity, debt, and aircraft financings. This has raised its liquidity to \$9.1 billion, which will help it survive the pandemic crisis at least till 2021. It is burning \$15-\$17 million in cash daily. When the capital is not generating any revenue but funding losses, debt becomes a problem.

AC already has more than \$14 billion debt, of which \$3.2 billion is maturing soon. It has refinanced \$1.52 billion of its current debt. But this arrangement won't last long. Fitch Ratings has downgraded AC's long-term debt to "BB," indicating a risk of default in adverse economic conditions. Equity investors have already backed off, and banks might follow if air travel demand doesn't recover next year. AC could be on the brink of bankruptcy.

As for Suncor, it has increased liquidity by \$3.75 billion to \$8.65 billion by securing \$2.5 billion in credit facilities and raising \$1.25 billion in senior unsecured notes with a 5% coupon. The pandemic has reduced oil demand to an all-time low, which is hurting its retail operations. Moreover, Suncor has reduced oil production on OPEC+ orders, which is hurting its refining operations. Even Suncor is using debt to fund its losses, which reached \$4.14 billion in the first half of the year.

The growth of both AC and Suncor hinges on the return of air travel demand. Suncor provides jet fuel. When planes are back in the skies, jet fuel demand would surge and boost revenue for both AC and Suncor.

Foolish takeaway

Investors have already priced the stocks for growth and losses. Shopify's and Lightspeed's stocks tripled during the pandemic. Their stock price rally is now [range-bound](#). AC and Suncor stocks have become value traps with no growth in sight for the next three years.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
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5. Tech Stocks

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. NYSE:SHOP (Shopify Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:AC (Air Canada)
5. TSX:LSPD (Lightspeed Commerce)
6. TSX:SHOP (Shopify Inc.)
7. TSX:SU (Suncor Energy Inc.)

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