



Why Lightspeed Stock Has Run Out of Steam

Description

Knowing when to fold 'em is just as important as knowing when to hold 'em.

In this case, I think the momentum behind **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)) may be running out.

Over the past month, shares of this company have essentially traded sideways. I think the market is trying to justify these current valuations, and is having a difficult time doing so. Even when compared with some of the highest-valuation tech stocks out there, Lightspeed trades at a premium right now. I think this premium may be unjustified, and the market is starting to realize this.

Business model concerns have not (yet) abated

A significant amount of optimism around the mass-inoculations we're seeing with the vaccines that have been released to the general public is definitely bullish for stocks like Lightspeed. The sooner pandemic-related restrictions are removed and shoppers can go back to packing bars and restaurants, the better Lightspeed's customers will do.

Indeed, counterparty risk is something that took Lightspeed's stock on a significant downward spiral last March. Investors tried to place expectations on what bankruptcies across small and medium sized enterprises (SMEs) would mean for Lightspeed's stock. After all, Lightspeed's platform is one used primarily by SMEs, and would certainly not do well in a scenario where its core customer base was experiencing solvency issues.

The good news for Lightspeed investors is that this company's cash flows have turned out to be very stable through the pandemic. Given the relatively low cost of Lightspeed's platform and its well designed and effective product, this company actually grew through the pandemic.

It turns out SMEs were in need of multichannel platforms like Lightspeed to shift to e-commerce during the pandemic. Lightspeed was effectively able to capture more of the POS market in difficult times. This is certainly a good thing for investors.

That said, concerns around Lightspeed's ability to grow its market share amid economic uncertainty remain. Investors will need to be extremely bullish on Lightspeed to buy this stock at these levels, in my view. The fact that these business model concerns have not completely abated is one reason for this stock running out of steam of late.

Valuation approaching nosebleed levels

Do I think Lightspeed has a [tremendous amount of growth potential](#) right now? Absolutely. The aforementioned business model stability and growth through a time when many expected issues is bullish long-term. That said, the company's valuation is applying a tremendous amount of growth right now. The extent to which Lightspeed can grow its way to a reasonable valuation multiple is questionable right now.

Any stock that trades at a multiple of more than 50-times sales is one that most fundamentals-oriented investors will steer clear from. This is a stock only for the most bullish long-term growth investors. If this is a stock that doesn't fit your risk profile, I'd suggest waiting for a pullback.

As we've seen in the past, this is a stock that has pulled back substantially on economic weakness. If such a situation materializes, and this stock's valuation approaches more attractive levels, this could be a buying opportunity. For right now, I'm remaining on the sidelines with this stock.

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