Why Facedrive (TSXV:FD) Stock Went Crazy and Rose 80% Last Week

Description

It seems like the year 2021 belongs to stock price swings. Whether you call it a short squeeze or something else, such swings certainly blow conservative investors' minds!

It was **Facedrive** (TSXV:FD) stock last week. The emerging ride-hailing stock rose throughout last week and added an insane 80% to its breathtaking rally. Facedrive stock has returned 1,860% in the last 12 months and almost 9,000% in the last two years!

Facedrive stock continues to soar

With a recent stock price surge, Facedrive — a company that generates close to million dollars in revenues — has a market capitalization of $4.6 billion.

Those insane price swings might have reminded you of **GameStop** stock. However, it's not certain that the Facedrive stock is up due to the technical anomaly called a short squeeze.

But there was a flurry of news from Facedrive recently. It launched Steer in Toronto last week. Steer is a fast-growing electric vehicle (EV) subscription-service-provider platform. As FD is in an EV ride-sharing business, the combination will likely produce synergy for Facedrive. However, the company has not revealed more details of the deal. Importantly, how the demand for mobility takes shape post-pandemic remains to be seen.

FD stock and its growth prospects

Apart from the ride-sharing business, Facedrive is also expanding in the food delivery, health, and car leasing business. Last month, Facedrive Health launched a contact-tracing wearable device called TraceSCAN. The company announced the addition of locations for its food delivery business as well.

Facedrive generates more than 75% of its total revenues from the ride-sharing business. Importantly, how the management focuses on its core business, with so many budding verticals, will be interesting to see.

Notably, among all the positive news, how the growth plans actually infiltrate into its financials will be essential to see. Facedrive generated $747,976 in revenues for the nine months ended September 30, 2020. It is a loss-making company at the moment.

Investors should note that many growth companies take years to become profitable. Their revenue growth is the most vital indicator for investors in the early years.

As Facedrive was catching up on handsome revenue growth last year, the pandemic and ensuing lockdowns played spoilsport. However, it has plans to expand the ride-sharing business beyond Canada in the U.S. and in Europe in the next few years.

Valuation too stretched!

But how much should one pay for handsome growth prospects? Facedrive stock is currently trading at $49. Based on its last 12-month revenues, the stock is trading at a price-to-sales ratio of 4,600! That's too tough to stomach. If someone argues over its strong revenue-growth prospects, even then, the stock price is unwarranted. Even the top tech giant stocks with proven historical records do not have such an exorbitant valuation at the moment.

Bottom line

As earlier stated, how Facedrive's growth oozes in its financials will be key for its investors. Stocks rising sharply have also seen drastic subsequent plunges in the past. Investors should be more careful while trading in such stocks. It is important to focus on fundamentals while investing for the long term and ignore the short-term noise.

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