Is Facedrive (TSXV:FD) Stock the Next Target of Redditors?

Description

Did you know **Facedrive** (TSXV:FD) stock has jumped almost fourfold in 40 days from $15.6 to $60? This means if you had invested $1,000 in this stock in December 2020, you would have $3,850 now. You may think I will tell you to buy this stock before it grows further. But I will suggest otherwise. The stock has outgrown its capacity, even after taking some of the most bullish estimates.

A few weeks back, I'd talked about **BlackBerry's** 200% stock price rally in less than a month. There was no strong fundamental backing or insider information that could justify the stock rally. The only plausible explanation was a trading game where some traders are artificially inflating the stock price. Is this the case with Facedrive? Don't you find the 123% rally in just one week overblown?

Why did Facedrive stock jump 123% in one week?

Some analysts say that Facedrive's 123% rally comes as the company launches electric vehicle (EV) subscription service Steer in Canada on March 1. Facedrive acquired the U.S.-based company Steer in September 2020 in return for its shares. It also secured a US$2 million strategic investment. The acquisition was pretty relevant, as it gave Facedrive entry into the U.S. market.

Then why didn't Facedrive's stock surge at the time of the acquisition, and why now? These days, Redditors are targeting unpopular stocks for a game of short squeeze. Hence, any sudden jump in stock price raises an alarm, as shorting is a fundamental investors' nightmare. Facedrive's stock is trading at 5,800 times its sales per share. This valuation is unrealistic, even for a high-growth stock.

A company that earns less than $1 million in annual revenue has reached a market capitalization of $4.7 billion. The first sign of the trading activity was visible today when Facedrive stock fell 15% at the opening bell. Hence, I recommend you to stay away from the stocks that soar to unrealistic levels.

What the fundamental investor thinks about Facedrive

After Facedrive's unrealistic stock price momentum ends, is it a stock worth buying? For that, you need to understand its business model. It aims to use technology to help individuals and corporations become environmentally, socially, and governance (ESG) compliant.

Facedrive's "people-and-planet-first" platform started as a ride-sharing service and then expanded to other verticals:

- Marketplace: a sustainable e-commerce platform
- Foods: food-delivery service
- Social: e-social platform
- Health: contact-tracing and sustainable health services business
- Steer: electric car subscription

All these services have one target audience, and that is environmentally conscious millennials. You can look at this model from two angles: a diversified revenue stream or too many businesses that lead to high expenses.

The bull and bear case of Facedrive

In the third quarter, Facedrive's revenue surged 36% year over year (YoY), and its operating expenses surged 186%. The company is in a high-growth stage and therefore has a high expense. If you look at most cloud-based software companies, most of them fail or get acquired during this stage, as they are unable to control expenses and capture market share. Until the company gains some decent market share in the ride-sharing business, the risk is high.

On the bright side, Facedrive is well capitalized with over $13 million in cash reserve. Moreover, the growing awareness in the market of becoming ESG-complaint can trigger the adoption of sustainable ride sharing. Leaders like **Uber** and **Lyft** plan to become 100% EV by 2030. This is where Facedrive has a competitive advantage, as it is already 100% EV.

I won't bank on Facedrive's various revenue streams at this point, as the company is making more losses than revenue. Its third-quarter revenue was $0.26 million, while its net loss was $3.5 million.

Investor takeaway

There are better growth stocks than Facedrive. **Lightspeed POS** stock rose six-fold last year on the back of strong demand for its solutions. The company is gradually gaining market share through organic growth and acquisitions. The earnings number speaks for itself. Even Lightspeed has not made any profit, but its revenue surged 78%. In the last 12 months, it reported a net loss of $100 million on revenue of $175 million. The stock has the potential to grow in the coming years.

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