Facedrive Stock: The Best Short Opportunity in Canada

Description

There's meme stocks, and then there's **Facedrive** (TSXV:FD). Some story stocks like Facedrive are getting bid up to levels that are absolutely ridiculous right now.

Any company with less than $1 million in revenues and a valuation of more than $5 billion ought to be taken with a grain of salt. Forget a grain of salt — take it with a truckload.

Unfortunately, it appears most of the buyers of this stock are unsophisticated retail buyers likely to get burned. The fear of missing out on high-growth opportunities right now is real. Accordingly, it appears investors are willing to take unnecessary risks in the stock market to chase these returns.

In my view, Facedrive is a screaming short opportunity right now. For investors not shorting this stock, I'd recommend steering clear of this company. I don't see a scenario where investors don't get burned by this stock over the medium to long term.

Facedrive's business model isn't unique

Facedrive's business model is simple. The company provides a ride-sharing platform focused on EV options. Similar to other notable apps, Facedrive's platform allows for driver reviews, cleaner transport, and other features we all take for granted with existing platforms — namely, **Uber** and **Lyft**.

In a word, this is a microscopic, small-cap company trying to be the next Uber or Lyft. The problem is, it happens to have some competition in this space.

Facedrive's solution? [It acquired an EV subscription company](#).

Investors seemingly willing to pay any price for EV exposure these days

Facedrive's recent acquisition of Steer last year has been the catalyst most investors point to as the reason for investing in this company. Unfortunately, this was a combination of two micro-cap companies that allowed Facedrive to benefit from two secular catalysts as opposed to one. Two companies combining their quarterly losses doesn't create a winning combination — at least, as far as I know.

As fellow Fool contributor Puja Tayal highlighted in a recent piece, the numbers don't add up. Tayal wrote: "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."

Bottom line

Sure, there's a possibility Facedrive will get acquired. However, I don't know of any company that would be willing to pay 5,274 times sales for any company out there. I think it more likely this stock will go back to trading in the penny-stock range whenever this massive bubble bursts.

Being short any company this speculative carries significant risks. Uninformed, unsophisticated investors could bid the price up higher. Going short a company that has posted a 52-week return of nearly 1,200% could seem like an insane thing to do.

However, I think today, the market is what's insane. When sanity does prevail, stocks like Facedrive will drop like a rock.

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Date
2025/08/16
Date Created
2021/02/22
Author
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