Should You Buy the Dip? Facedrive (TSX:FD)

Description

The stock market is seeing a pullback in the second half of March, creating a wave of opportunistic investors who are buying the dip. Buy the dip strategy works when the company has a strong business model, a workable strategy, and long-term growth potential. As Warren Buffett says, there are many “investing illusions” that are all hype and no business. **Facedrive** (TSXV:FD) is a perfect example.

Facedrive: Hype or misunderstood growth?

Walking on the path of **Tesla**, Facedrive seems to have supporters and critics. But it is nothing close to Tesla. Facedrive neither has a unique concept nor a mind-blowing product that appeals to either the masses or the classes.

Founded in 2016, Facedrive has already expanded to six businesses; Facedrive Rideshare, Facedrive Marketplace, Facedrive Foods, Facedrive Social, Facedrive Health, and Steer. Some verticals like social, health, and marketplace are different from the rideshare business. It is too much diversification, and none of them is performing well. If you check out the **Google** PlayStore rating of Facedrive Food and its ride-sharing apps, most of its users have given it a one-star rating for its poor user experience.

The company’s accumulated annual revenue of $1 million is not even one-thousandth of its $2.5 billion market valuation. This shows that Facedrive stock price is inflated to levels that give goosebumps to value investors. The unprecedented market cap made me question what caused this valuation jump, and the answer was hype.

How Facedrive created hype

Buffett, in his 2021 annual letter to shareholders, said that a great company will not sell its business, but a mediocre company will. The holding companies who are in the business of acquisitions buy unrelated mediocre companies for a hefty premium using an all-stock deal. Buffett describes such acquisitions, “I’ll pay you $10,000 for your dog by giving you two of my $5,000 cats.”

These companies overvalue their stocks by creating media hype and using “imaginative” accounting maneuvers and business numbers. Buffett added, “At a point, the soaring price of a promoted stock can itself become the ‘proof’ that an illusion is a reality. Eventually, of course, the party ends, and many business ’emperors’ are found to have no clothes.”

The reality behind Facedrive’s hype

Facedrive stock has surged more than 1,100% from $2.9 to $24.9 in 15 months. Three major growth events boosted the stock price.

- In March 2020, Facedrive acquired a socially responsible ride-sharing and car-pooling business HiRide for $1 million in a full-stock deal.
- In July 2020, Facedrive acquired a nearly bankrupt food delivery service Foodora for $500,000. It is not clear how much of this amount Facedrive paid in cash. But $500,000 for a nearly bankrupt company is a high price to pay. Facedrive created the hype around this acquisition and drove its stock price by 500%.
- In September 2020, Facedrive acquired electric vehicle (EV) subscription service Steer for US$3.25 million, another full-stock deal. The Steer deal didn’t make much hype until 2021 when Facedrive promoted the Steer service launch in Canada in March.

Facedrive is also using imaginative numbers to create the hype. On February 25, the company revealed that its Facedrive Foods platform currently has more than 260,000 active users in 19 cities across Canada. It is delivering more than 4,500 meals per day for its ~4,650 restaurant partners. These absolute numbers are more of an illusion unless compared to its past performance or competitor data.

All the above strategies make sense when you look at the background of Facedrive CEO Sayan Navaratnam. He is a senior managing director at Valens Capital Management, and Chairman and CEO of several companies like Creative Vistas, AC Technical Systems, and Connex Telecommunications. It is a profile of a private equity investor whose business is acquisitions.

Final thoughts

Facedrive seems to be like a business emperor who has no clothes only hype. Its mission statement is “to do business fairly, equitably and sustainably.” But what business? It also doesn’t have a proper long-term growth plan. There are better stocks with sustainable business models and a long-term growth path.

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