Buy This, Not That: Canadian Tech Stocks

Description

Canadian tech stocks have been doing well this year. After a banner year in 2020, they just keep going higher. Many Canadian tech companies benefitted from the COVID-19 pandemic instead of being hurt by it. The closure of retail stores led to more people shopping online, which boosted their sales. This was a boon to many Canadian tech companies in 2020 — particularly e-commerce companies.

In 2021, Canadian tech is still going strong. We're beginning to see some earnings deceleration after 2020's record-breaking growth but not enough to be a real concern. In this article, I'll reveal two Canadian tech stocks that I would buy at today's prices — along with one I'd completely avoid.

Tech stocks I'd buy

Two TSX tech stocks I would buy today are **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD). Both of these companies enjoyed a revenue boost in 2020 thanks to the COVID-19 pandemic and are still doing well today in 2021.

In Shopify's most recent quarter, the company posted $1.1 billion in revenue (up 56%), $620 million in gross profit (up 66%), and $284 million in adjusted net income, up 113%. Those are pretty good results overall. Revenue growth did decelerate compared to 2020 quarters and Q1 2021 but was higher than in most pre-COVID years. So, Shopify is still growing, despite the second-quarter waning of COVID-19 lockdowns, which were long seen as a risk factor for the company.

It's a similar story with Lightspeed POS. Like SHOP, LSPD gained from the COVID-19 pandemic instead of losing to it. The surge in online shopping led to a massive increase in LSPD's e-commerce revenue. Customers that had previously been using the company's retail POS, switched to using its online payments system, leading to a spike in revenue. In its most recent quarter, Lightspeed's revenue jumped 127%, and the adjusted net loss shrank as a percentage of revenue. So, like Shopify, LSPD is a "COVID-19 winner" stock that is still doing well in the waning months of the pandemic.

One I’d avoid

Shopify and Lightspeed are two Canadian tech stocks I’m pretty bullish on.

But there are others that I’m not so fond of.

One of those is **Facedrive** (TSXV:FD). Facedrive is a ride-sharing company with a somewhat vague market niche. It styles itself as being an “ESG-friendly” ride-sharing firm that is also involved in health tech. The company’s purpose is hard to pin down, and management seems to be courting ESG investors. It started as a ride-sharing firm that offered incentives for drivers to use eco-friendly vehicles. Then it branched out into food delivery and COVID-19 health tech. The company did release one quarterly earnings document that showed 1,000% year-over-year revenue growth, but that was growing from a base amount of just $36,000. It’s not that hard to grow your revenue by 1,000% if you’re starting from such a small amount and you get venture funding to fuel growth. Also, ride-sharing revenue later declined following the initial rise.

Since releasing that one earnings report, FD has made it hard to find earnings reports on its website. The company’s entire purpose is hard to understand, and management isn’t the most transparent. This is one I’d avoid for sure.

CATEGORY

1. Investing
2. Tech Stocks

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1. Editor's Choice

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3. TSX:LSPD (Lightspeed Commerce)
4. TSX:SHOP (Shopify Inc.)
5. TSXV:STER (Facedrive Inc.)

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