Why Nuvei (TSX:NVEI) Stock Is up 13%

Description

Nuvei (TSX:NVEI) has seen its stock surge 13% this morning. The trigger was a better-than-expected quarterly earnings report. The company's ability to outperform during a period where other tech stocks have struggled is a testament to the superior economics of the FinTech model.

Here's what investors need to know.

Nuvei stock's outperformance

Nuvei stock is up 13% this morning and a jaw-dropping 62% year to date! Compare that to the rest of the stock market, which is up just 16.8% over the same period. Meanwhile, most tech, software, and e-commerce stocks are either flat or have lost value in 2021.

That's because the reopening has overheated the economy. Prices are rising, and that puts pressure on stocks that are unprofitable. Nuvei, however, isn't just profitable but a beneficiary of higher prices. When merchants and businesses raise prices, Nuvei simply transmits that which pushes its transaction volume and net income higher.

In the second quarter of 2021, total volume increased 146% to $21.9 billion from $8.9 billion last year. Revenue and net income surged 114% and 177% respectively year on year.

Cash flow from operations may have been the biggest surprise. It surged from just $32.8 million in the second quarter of 2020 to a whopping $139 million by this quarter – – blowing away analyst expectations.

It seems investors may have underestimated Nuvei's capacity to grow during this inflationary cycle. Triple-digit growth like this deserves a higher valuation, which is why Nuvei stock is surging this morning.

Long-term outlook

After its recent surge, Nuvei is now worth $17 billion. That seems like an overvaluation at first glance, but investors need to take a closer look.

Nuvei has reported $66 million in net profit over the past six months. Annualized, the net profit could be between $130 million to $150 million. That means the stock is trading at a forward price-to-earnings ratio of about 120. However, the annual growth rate is just as high. That means the price-to-earnings-to-growth (PEG) ratio could be near one.

In short, Nuvei stock is either fairly valued or undervalued given its current growth rate. It's the ideal tech stock for investors seeking growth-at-reasonable-prices and a hedge against inflation in the near term.

The global digital payments industry is worth trillions, and Nuvei has barely just scratched the surface. It's a potential millionaire maker.

Bottom line

Nuvei stock is up 13% at the time of writing and could climb a lot higher. The stock has outperformed both the Canadian stock market and most tech stocks this year.

However, analysts and investors shouldn't be surprised by its outperformance. Digital payments and financial technology are in a unique position. Higher prices and inflation *benefit* these payment providers. Higher transaction volumes lead to greater revenue and net profits. TSX NVEI's second-quarter results clearly reflect that.

The stock is still fairly valued given its current growth rate and deserves more attention from long-term investors.

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