Under Fire: 2 High-Profile TSX Stocks to Avoid in Q4 2021

Description

High-profile **TSX** stocks aren't necessarily the best investment prospects. **Lightspeed Commerce** (TSX:LSPD)(NYSE:LSPD) and **Canopy Growth** (TSX:WEED)(NYSE:CGC) are top names in the technology and cannabis sectors, respectively. However, the two growth stocks have been under fire lately. It would be best to avoid them in Q4 2021 because of issues concerning revenue and profitability.

Alleged misleading of the public

Lightspeed soared to as high as $158.93 on September 22, 2021, but it has gone on a tailspin since then. As of October 8, 2021, the tech stock trades at $108.14 per share and is up 20% year to date. However, it has fallen by 32% from its peak and lost 27.74% in the last 10 trading days.

On September 30, 2021, Rosen Law Firm initiated an investigation of Lightspeed Commerce. The $15.94 billion e-commerce or Software-as-a-Service (SaaS) platform was alleged to have engaged in unlawful business practices. The global investor rights law firm alleges the tech firm may have issued materially misleading business information to the investing public.

Spruce Point Capital Management published a report a day before stating that there's evidence showing that Lightspeed massively inflated its business before its initial public offering (IPO). Other findings of the market analyst firm are the overstating of customer count and gross transaction volume (GTV) by 85% and 10%.

A former employee describes it as smoke and mirrors because, in reality, organic growth is declining, and business is deteriorating. Lightspeed is a high-flyer with a 121.83% trailing one-year price return. The tech stock's total return in the last 2.59 years is 472.17% (96.15% compound annual growth rate).

In Q1 fiscal 2022 (quarter ended June 30, 2021), the one-stop commerce platform for merchants worldwide reported a 220% increase in revenue versus Q1 fiscal 2020. It also posted a 453% and 115% growth in transaction-based and recurring subscription revenues.

Lightspeed's net loss, however, magnified by 145% to $49.3 million. Still, management said the quarterly results were a solid start to fiscal 2022. Portnoy Law Firm has initiated an investigation into possible company wrongdoings. A class-action suit could negatively impact the tech stock.

Non-performing industry leader

Canopy Growth is the acknowledged leader in the cannabis industry. However, it's one of the worst-performing weed stocks. Investors are disenchanted with the 47.45% loss thus far in 2021. However, if you still own WEED, market analysts recommend a hold rating. Their 12-month average price target is $26.94%, a potential climb of 64% from the current share price of $16.46.

Smaller players like **OrganiGram Holdings** (+66.27) have performed far better than Canopy Growth. Other industry giants like **Aurora Cannabis** (-15.19%), **Tilray** (-35.15), and **Hexo** (-63.49%) are underperformers too. The $6.47 billion company recently reported revenue and net income growth, but they didn't propel the stock.

In Q1 fiscal 2022 (quarter ended June 30, 2021), revenue increased 31% versus the same quarter in fiscal 2021. Canopy ended the quarter with $389.9 million in net loss compared to the $128.3 million net loss last year. However, the net operating loss went up by 9% versus Q1 fiscal 2021.

According to Canopy CEO David Klein, the exciting product pipeline planned for the coming quarters should help scale the business.

Risky bets

Lightspeed Commerce could suffer a backlash if a class-action suit pushes through. Canopy Growth has to show a clear path to profitability before people take notice. Thus, avoid both stocks in the meantime.

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1. Cannabis Stocks
2. Investing
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1. NASDAQ:CGC (Canopy Growth)
2. NYSE:LSPD (Lightspeed Commerce)
3. TSX:LSPD (Lightspeed Commerce)
4. TSX:WEED (Canopy Growth)

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cliew