



Lightspeed (TSX:LSPD) Stock Just Dropped 23%: Should You Buy?

Description

It has been a trying time for **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)) stock over the past month. Since September 13, 2021, its stock price has collapsed by 23%. Two weeks ago, Spruce Point Capital Management issued [a strong sell report](#). It detailed why it believes Lightspeed could have 60-80% downside risk.

The short report has some serious issues to address

The report details a number of allegations. One of the largest concerns is that Lightspeed is growing to grow but with no end-point of profitability in sight. In order to keep up its mandate, Lightspeed will continually have to go to the equity markets (as it has been doing) to finance acquisitions and back-fill its lack of organic revenue and earnings growth.

Certainly, the 125-page report is fairly comprehensive, and there are a number of concerns that should not be overlooked. There is also a significant amount of hyperbole, where Spruce Point seems to blow minor concerns far out of proportion.

The short author is winning from a drop in Lightspeed stock

The reality is, Spruce Point [shorted](#) Lightspeed stock before releasing the negative report. It is looking to profit by “helping” Lightspeed stock drop as far as possible. So, make sure to read past the bias.

Undoubtedly, Lightspeed has built a strong platform that Spruce Point fails to really appreciate. While it is only hearsay, I know a number of merchants utilizing Lightspeed's platform. They have said its tools are incredibly powerful and have helped them when navigating through the pandemic.

Lightspeed has a real business, but is its stock valuation justified?

That doesn't perhaps justify an unprofitable business model. However, it does speak to the fact that Lightspeed has a real business and a platform that many merchants appreciate.

For me, the largest concern investors need to consider is its valuation. Prior to its crash, Lightspeed stock traded for 77 times revenue. Today, after losing nearly a quarter of its value, it still trades with a trailing price-to-sales ratio of 54 times. Forward price-to-sales are 32 times (which is a little better).

Considering the short report, I think the market will be a lot more rigorous in evaluating Lightspeed's results. Management did not really address the short report in any clear terms, so it will be important to follow its second-quarter 2022 results closely. These will be reported on November 4, 2021.

Minding the recent headlines, I have moved to the sidelines with Lightspeed stock. Considering the shorts, the increased scrutiny, and perhaps its unjustifiable valuation, I think there are better [high-growth stocks](#) to follow.

Two high-growth stocks I'd look at instead

Shopify, which has a much larger and more established e-commerce platform, only trades for 44 times forward sales. While it is growing revenues at about half the rate that Lightspeed is (around 60% revenue growth expected in 2021), it is also accreting solid EBITDA margins. Likewise, it is debatable that Shopify has a far superior platform and merchant ecosystem. Some, like Spruce Point, believe Shopify could crush Lightspeed when competing head to head.

Another high-growth stock is **Nuvei**. It trades with a forward price-to-sales of 33 times. Yet it is expected to grow revenues and EBITDA by over 85% this year. It produces strong +40% EBITDA margins. This could reach as high as 50% in the next few years. Given its potential to scale growth and earnings simultaneously, I would rather buy Nuvei over Lightspeed stock today.

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Date

2025/09/08

Date Created

2021/10/14

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