Is Docebo Stock a Buy?

Description

Docebo (TSX:DCBO)(NASDAQ:DCBO) is an enterprise-facing e-learning company that went public in late 2019. Since its IPO, the stock has returned over 500% to investors. However, its also trading 16% below record highs, making DCBO stock attractive to contrarian investors.

While the bulls remain optimistic about Docebo's long-term growth potential, the bears are wary of the stock's sky-high valuation as well as multiple macro-economic issues that might trigger a broader market selloff. Let's see if you should add this high-flying growth stock to your portfolio right now.

The bull case for Docebo stock

One of the fastest-growing companies on the TSX, Docebo aims to leverage technology and artificial intelligence to disrupt the legacy learning management systems, or LMS, vertical. The company's LMS platform already enables enterprises to easily create and deliver content across devices. For example, Docebo offers a software tool that uses AI capabilities that can convert existing company resources into training courses, thereby automating a task that previously took several hours to complete.

Docebo focuses on improving employee engagement on the platform and supports over 400 integrations as well, which makes the learning process accommodative and effective.

At the end of Q2, Docebo increased its customer base by 22% year over year to 2,485. This has allowed the company to increase sales to US$82.25 million in the last 12 months, up from US$62.91 million in 2020 and US$41.44 million in 2019. Docebo's free cash flow in the last four quarters also improved to $3.3 million, as its revenue has grown at an annual rate of 56% in the last two years.

The company expects e-learning tools to remain an integral part of corporate functions. DCBO, in fact, expects its total addressable market to touch $29.9 billion by 2025, which is 360 times its last 12-month sales, providing the company with enough room to expand its top line.

Docebo's net retention rate also rose to 108% in 2020, up from 105% in 2019, which shows existing customers are increasing spending on its platform.

The bear case for DCBO stock

As seen above, market participants are worried about the steep valuation for DCBO stock. But analysts also expect Docebo to increase sales by 101% to $127 million in 2021 and by 38.3% to $176 million in 2022. Further, its loss per share is forecast to narrow from $0.62 this year to $0.15 in 2022.

We can see that Docebo stock is trading at a forward price-to-2022 sales multiple of 14.9 which is sky-high. Further, the company remains unprofitable on an adjusted basis, making DCBO stock vulnerable in a broader market selloff.

The Foolish takeaway

Employees account for a significant portion of a company's total expenses, making them a very important asset. It's very important for enterprises to dedicate resources towards the development of their employee base.

The shift towards remote work and a rapidly expanding addressable market are secular drivers that will drive revenue growth for Docebo in the future.

While Docebo remains a solid long-term bet for growth investors, the stock's extremely expensive multiples make it a high-risk bet at current prices. But it's impossible to time the market, and investors should view every major decline in DCBO stock as a buying opportunity.

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