



Why Nuvei (TSX:NVEI) Stock Lost More Than 50% of its Value

Description

Nuvei ([TSX:NVEI](#))([NASDAQ:NVEI](#)), one of the most successful tech initial public offerings ([IPOs](#)) of 2020, lost 54% value from its October high. What caused the stock to fall from \$171.23 to \$79, even after the company revised its full-year 2021 outlook upwards? Just one name, Spruce Point Management. It's the same short-seller that made tonnes of money by revealing a negative [report](#) on **Lightspeed Commerce**.

Spruce Point is like the new Redditor, and investors are interested in knowing who its next target is. Its report tends to create significant momentum in the stock price. So, what does Spruce Point have against Nuvei, and will it materially impact the payment-processing firm's future earnings? Let's find out.

What Spruce Point has to say about Nuvei

Spruce Point released its report on December 8, in which it brought out the past of Nuvei's management. The report stated that a few of its executives have a history of unethical practices and fraud. Moreover, it alleged that Nuvei rebranded itself thrice. Its prior two brands, PaySystems and Pivotal Payments, ended in inauspicious circumstances. The report also alleged that some of Nuvei's acquisitions are tied to controversial people and Ponzi schemes.

After reading this report, it might look like Nuvei has a lot of legal trouble coming its way. If any of these allegations are true, shareholders might want management with a clean record, as the payments platform has been doing pretty well.

What's the catch?

Spruce Point is a short-seller that seeks negative news to drop the share price and profit from it. The short-seller is no regulatory body nor a newspaper, but its reports could impact the company's business. *Bloomberg* [reported](#) this news with a special note to editors that reads, "The following is an investment opinion issued by Spruce Point Capital Management."

If none of Spruce Point's allegations are true, the stock could see a downside in the short term. But once the allegations fade, the stock could return to its growth path, creating a significant upside.

In the long term, investors care about profits and revenue growth. Nuvei has got both. In the nine months ended September 30, 2021, its total transaction volume and adjusted EBITDA surged 119% and 102%, respectively. The company also raised its full-year adjusted EBITDA outlook from \$300 million to \$314 million after adding earnings of its recent acquisition of Mazooma.

Overall, analysts are bullish on Nuvei, with 12 of the 14 analysts having a buy recommendation and the remaining two having a hold recommendation. They believe that Nuvei can achieve its full-year 2021 guidance.

What should you do with Nuvei?

Spruce Point's allegations have forced investors to doubt the credibility of Nuvei's business. A stock price reflects a company's earnings potential, but it also reflects investors' confidence.

While I am bullish on Lightspeed Commerce, even after Spruce Point's report, I am skeptical about Nuvei. Spruce Point alleged Lightspeed inflated the number of customers and hid the churn rate. But the key figures of revenue and losses were correct. These allegations, if correct, would only make Lightspeed improve its reporting structure so that investors can get a transparent picture of the business.

But in the case of Nuvei, there are allegations of unethical practices and controversial businesses. Nuvei's transaction volumes and revenue grew above 90%, even though the platform has higher charges than other platforms. If Nuvei is found to have links with controversial businesses, its transaction volumes could get affected.

If I were to choose between the two targets of Spruce Point, I would invest in Lightspeed, as it has a better chance of winning back investor confidence.

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