Lightspeed Commerce Stock Down 75%: Is it a Value Play?

Description

Lightspeed Commerce (TSX:LSPD)(NYSE:LSPD) has lost 75% of its valuation in four months. It first started with a negative report from short-seller Spruce Point Capital. It then went on to overall market weakness because of the spread of the COVID-19 Omicron variant. And now it is the tech stock sell-off . This chain of events got the worst of investors. Some investors booked profits and some losses.

The current value of Lightspeed stock

Lightspeed stock is currently trading at $38.25, a level that was last seen in July 2020 and before that in July 2019. This is a price the bearish short-seller Spruce Point Capital has valued Lightspeed stock at ($22.50–$45.00 per share).

Lightspeed is in the e-commerce business driven by turnover rather than profits. The right way to value a turnover-driven stock is by weighing its stock price against sales per share. This 75% valuation dip pulled down its price-to-sales (PS) ratio from over 50 times in September 2021 to 14.3 times at present. The stock has lost all the inflated value the pandemic brought.

And if you think that traders are booking profits through short-selling, there is no unusual short-interest ratio. This means people are selling their long positions. Lightspeed may have inflated valuations, but it ain't **Facedrive**. Unlike Facedrive, which moved from ride-sharing to food delivery business with unsustainable losses, Lightspeed has a growing business. The problem with Lightspeed is that its organic growth rate is slowing. That is normal for any high-growth company.

So what's next for Lightspeed stock?

Remember the March 2020 dip, when Lightspeed stock fell to as low as $12? What happened next is known to all. The stock surged over 1,000% in 18 months as the company went into an acquisition spree and expanded geographically and technologically. The company even listed itself on the **New York Stock Exchange** to raise capital in the U.S. and even grow there. It succeeded through major acquisitions of ShopKeep and Upserve. Lightspeed announced that its U.S. retailers grew twice as much as the industry average in 2021.

In the second quarter ended September 2021, Lightspeed's organic revenue grew 58% year-over-year. Even if its growth rate halves to around 25%-28%, a 14.3 times P/S ratio is a pretty cheap valuation.

Is Lightspeed stock a value play?

Generally, a value stock has stable cash flows or earnings, a history of success, long-term growth potential, and is trading relatively cheaper than its intrinsic value. Then there are growth stocks that don't have a strong history but do have attractive future growth potential. These stocks are expected to deliver above-average returns compared to their industry peers or the overall stock market. Stocks that have both attributes of value and growth are a value play.

Lightspeed is a value play as it has dipped to unexpected levels. The company is scheduled to release its third-quarter earnings on February 3. The quarter was pretty rough for the entire e-commerce industry as supply chain issues and high inflation impacted holiday season sales. Moreover, the stock market is going through a sell-off, so probably there could be more dip in the near future.

But Lightspeed is the robin you look for in the spring of a stock market crash. The stock may not return to its September 2021 highs of over $158, but it could grow 20% to its average trading price of around $46 in 2022. This is a conservative estimate.

What should you do?

If you bought Lightspeed stock at its peak (above $100), you could be in for a long-term downside. You could recoup losses by buying this stock below $35 and booking profit at regular intervals. If you are not a shareholder, you could add this stock to the watchlist, and buy it when it rallies for three to four days in a row. It could prove to be one of your best purchases of 2022.

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