Lightspeed (TSX:LSPD) Stock Drops 16% in a Month: Is it a Value Buy?

Description

The downtrend in **Lightspeed** (TSX:LSPD)(NYSE:LSPD) stock continues, as it decreased nearly 16% in one month. Further, it has declined by about 57% in three months, thus underperforming the TSX 60 index by a wide margin and depleting its shareholders' wealth.

The significant drop in Lightspeed stock follows Spruce Point's short report and overall selling in the tech and other high-growth stocks.

The considerable decline in Lightspeed's stock price makes it an attractive value pick, especially as it continues to deliver strong financial performance and projects strong organic growth in the future.

Strong Q3 performance

Lightspeed Commerce recently delivered strong Q3 financials. Its top line increased 165% year over year, reflecting strong organic growth and benefits from recent acquisitions, including NuORDER, Vend, and Ecwid.

Notably, Lightspeed's subscription and transaction-based revenues that represented about 95% of total revenues in Q3 increased 175% year over year. Highlighting the strength in the underlying business, Lightspeed stated that subscription and transaction-based revenues witnessed organic growth of about 74%.

Thanks to its strong revenues, its adjusted EBITDA loss as a percentage of revenues improved to 4.7% from 11.4% in the prior-year period. Meanwhile, its adjusted net loss as a percentage of revenues also improved.

Now what?

Looking ahead, Lightspeed's subscription revenues could continue to benefit from increased customer count, which is led by recent acquisitions. Further, increased adoption of its multiple software modules

by existing customers will likely support subscription revenue growth.

While its subscription revenues could grow rapidly, higher penetration of its payments solutions will drive its transaction-based revenues at a breakneck pace. Notably, Lightspeed's transaction-based revenues increased by 249% year over year in Q3, reflecting higher GTV (gross transaction volume) and an increased portion of it being processed through its payments solutions.

While Lightspeed's payments penetration rate continued to increase, it still represents only a fraction of its total GTV, providing a strong multi-year growth opportunity for the company.

Overall, the ongoing migration of small -and medium-sized businesses towards an omnichannel selling model will likely drive demand for its digital products. Meanwhile, continued strength in recurring and transaction-based revenues, growing customer base, and expansion into high-growth geographies and verticals augurs well for growth.

Thanks to its strong Q3 performance and strength in its business, Lightspeed increased its revenue forecast for FY22. It now expects its top line to be in the range of $540 million to $544 million, up from its earlier guidance of $520 million to $535 million.

LSPD stock offering value

The significant price drop has driven Lightspeed's valuation lower, which is well below the pre-pandemic levels. It's worth noting that Lightspeed stock is trading cheap (at a forward EV/sales multiple of 5.4, which reflects a discount of about 66% from its historical average), providing a solid buying opportunity.

Bottom line

Overall, Lightspeed's core business continues to perform well, reflected through higher revenues, increased customer base, higher software adoption. Further, its low valuation, expansion of its payments solutions beyond North America, ability to increase scale and operating leverage, and favourable sector trend support my bullish outlook on Lightspeed stock.

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