



Lightspeed: Why This Growth Stock Could Double

Description

Lightspeed ([TSX:LSPD](#))([NYSE:LSPD](#)) offers a cloud-based commerce platform targeting small- and medium-sized businesses. The COVID-19 pandemic accelerated the demand for Lightspeed's digital products. Further, the pandemic stepped up the pace of shift in selling models towards online and omnichannel platforms.

Thanks to the secular tailwinds and higher demand, Lightspeed delivered stellar financials, while its stock skyrocketed from the lows and generated exceptional returns.

However, a short report on Lightspeed from Spruce Point and concerns over slowing organic growth took a toll on its stock. Notably, Lightspeed stock slumped over 81% from its 52-week high and is down about 39% this year.

Now what?

The list of macro and geopolitical headwinds has increased, posing challenges for Lightspeed stock in the near term. Notably, higher inflation, a rising interest rate environment, and disruptions from the Russia/Ukraine conflict could hurt consumer spending and slow the growth pace, impacting Lightspeed's performance.

Despite concerns, investors should note that the momentum in Lightspeed's business is being sustained, despite tough comparables.

Lightspeed's top line surged 165% year over year during the most recent quarter. This reflects the benefits of its two-pronged growth strategy. While acquisitions accelerated its growth, organic sales continued to trend higher.

For context, Lightspeed reported organic growth of 74% in its subscription and transaction-based revenues. Further, Lightspeed's transaction-based revenues surged 249% year over year. Meanwhile, subscription revenues increased by 123%.

Thanks to the ongoing momentum in its business, Lightspeed raised its FY22 revenue forecast. Further, addressing concerns around a slowdown in organic revenue, Lightspeed expects to sustain annual growth of 35-40% in the coming years.

I believe this growth rate is sustainable due to the continued increase in software ARPU (average revenue per user) and opportunities in the payments offerings. Further, the contribution from its supplier network initiative bodes well for growth.

Notably, Lightspeed's payments penetration is increasing but remains low (only a fraction of gross transaction volume processed through its payments solutions), implying further growth opportunities. Overall, a growing gross transaction volume and increased penetration augur well for future revenue growth.

Bottom line

The continued shift of small- and medium-sized businesses towards omnichannel selling platforms, product expansion, and entry into high-growth verticals and markets will likely drive Lightspeed's growth. Furthermore, higher payments penetration and increased revenue from existing users could support organic growth.

Lightspeed's acquisitions, a series of new offerings, like e-commerce for restaurants and Lightspeed Capital, and a growing user base provide a solid base for growth. Also, international expansion, the ability to increase scale, and operating leverage are positives.

While Lightspeed's initiatives suggest that it could continue to grow rapidly, the significant decline in Lightspeed stock has resulted in compression in its [valuation](#). It is trading at an EV-to-sales multiple of 4.1, which is at a multi-year low.

Overall, its low valuation, multiple growth catalysts, and ongoing momentum in the business support my [bullish outlook](#) and indicate that it has the potential to double from current levels in the medium term.

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Date

2025/08/18

Date Created

2022/04/13

Author

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