



Why Did Lightspeed Commerce Stock Fall 14% in a Week?

Description

The tech stock [selloff](#) that began on December 30, 2021, continues. One of the hardest-hit stocks from this selloff was **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)), and the dip continues. Its stock fell over 6% today, adding to its one-week decline to 14%. The stock has lost 82% of its valuation since the Spruce Point [report](#) in September 2021. What triggered the latest dip?

What happened in the past week?

On April 20, Statistics Canada [released](#) its March inflation numbers. The inflation surged from 5.7% in February to 6.7% in March. When inflation rises, the average investor's appetite to sacrifice current consumption for future growth prospects reduces. The surge in inflation created panic, sending [growth stocks](#) into the red. **Nuvei** and **Shopify** fell 5.5% and 14%, respectively. Lightspeed stock fell 6.24%.

U.S. inflation rose to 8.5% in March from 7.9% in February. The accelerating inflation has forced the Fed to take a tough stance. On April 21, Fed chair Jerome Powell [hinted](#) at the possibility of aggressive rate hikes in May. This could mean a 50-basis-point hike. Some economists have not ruled out the possibility of a 75-basis-point hike.

A higher interest rate increases the discounting rate used to determine the present value of future cash flow. Even though Lightspeed has a bright outlook with a 50% organic revenue growth, the company is making losses in the present, further impacting its value. Moreover, the company has diluted its shareholding during the pandemic by raising new equity capital to fund its acquisition spree.

Higher inflation and fear of a 50-basis-point interest rate hike triggered a dip. The market could see more selling, as the May 2nd tax deadline nears. Individuals and small companies are paying their tax bills. Some might even book losses on their stock investment to reduce their capital gains elsewhere.

Should you buy Lightspeed stock at the current price?

None of the past week's events had anything to do with Lightspeed's business or fundamentals.

History shows that the market corrects the stock price in the long run. Intrinsic [value](#) is the price that the stock can sustain as it reflects its fundamentals. But Lightspeed stock is oversold with a Relative Strength Index (RSI) of 31.

The stock has dipped to US\$21.66 on the NYSE, which is even below Spruce Point's bearish estimate of US\$22.50–US\$45. On the TSX, the stock is trading at 6.3 times its price-to-sales (P/S) ratio, which is cheap for a stock with double-digit revenue growth. Other e-commerce-related stocks, like Nuvei, Shopify, and **Descartes Systems**, are trading near or above the 12 times P/S ratio. Like Lightspeed, even Nuvei faced the negative report of Spruce Point. Lightspeed stock is not only oversold but undervalued.

Lightspeed will announce fourth-quarter earnings on May 19. The stock could see a surge ahead of earnings. I expect marginal earnings, with most of the growth coming from the 2021 acquisitions. Its 2022 guidance could be weak, as inflation reduces the purchasing power of consumers. But despite this, the stock is trading at a significant discount.

How to trade on Lightspeed in the short term

You can take some short-term profits. Lightspeed stock surged 27% a week ahead of third-quarter earnings. It surged 56% in a week after the Fed hiked interest rate in mid-March. In both cases, its RSI bottomed at or below 30. The month of May has both earnings and Fed meeting coming up, and Lightspeed stock has bottomed out at the RSI of 31.

If the stock repeats the above moves, you could get around 50% capital appreciation in a week. You can buy the stock now and wait for the two May events. When your stock hits a 50% jump, book profit before the stock falls again. This is a risky trade. Even if the earnings or Fed meeting don't trigger a rally, you can hold the stock for three to five years. It can give you double-digit growth in a growing economy.

CATEGORY

1. Investing
2. Tech Stocks

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2. TSX:LSPD (Lightspeed Commerce)

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