



Down 81%, This Growth Stock Could Deliver Superior Returns

Description

High-growth stocks, primarily from the tech sector, that skyrocketed amid the pandemic have reversed all of their gains. The deceleration in growth rate, high inflation, rising interest rates, and supply constraints led investors to shun these high-growth stocks.

The recent selloff led to massive erosion in the market cap of growth stocks. Meanwhile, fear of a slowdown in the economy is limiting the recovery.

Take **Lightspeed** ([TSX:LSPD](#)) ([NYSE:LSPD](#)) stock, for instance. The [tech company](#) provides cloud-based commerce infrastructure to small- and medium-sized businesses. The demand for its digital products soared amid the pandemic, as businesses moved to omnichannel platforms. Thanks to the solid demand, Lightspeed's stock price gained significantly.

The momentum in Lightspeed's business sustained, as the in-person shopping and dining further supported the demand for its platform. However, a short report from Spruce Point last year irked investors and triggered the selling in Lightspeed stock. Meanwhile, macro headwinds compounded Lightspeed's shareholders' woes.

As investors dumped Lightspeed stock, it dropped about 81% from the 52-week high. However, what stands out is that Lightspeed continues to deliver strong organic growth. Meanwhile, management is confident that the momentum in its business will likely sustain, as merchants and restaurateurs will benefit from easing lockdowns and continue investing in technology and expanding to new locations.

Now what?

Lightspeed delivered organic growth of 48% in Q4 of FY22. Moreover, it expects to generate organic growth of 35-40% in FY23. This guidance seems conservative, as easing pandemic restrictions, and new product launches will likely accelerate its growth.

It's worth mentioning that Lightspeed customer locations (excluding Ecwid) increased to 163,000 in Q4 from 159,000 in Q3. Moreover, its monthly ARPU (average revenue per user) saw 35% growth, while

subscription ARPU also improved.

The company's focus on acquiring customers with high GTV (gross transaction volume) and strong underlying unit economics augurs well for growth and will likely drive its ARPU. Notably, a notable portion of its existing customers are adopting multiple modules, which will accelerate ARPU expansion.

Lightspeed is expanding in its existing markets and is targeting to enter new geographies and verticals, which will support the adoption of its payments platform and increase the penetration of its addressable market. Its payments penetration continues to grow, which is positive and will likely support its growth.

Besides its focus on organic growth, Lightspeed pursues strategic acquisitions that help it enter new markets and verticals, increase penetration in the existing markets, and accelerate product development.

Compelling valuation

While Lightspeed's fundamentals remain strong, it trades cheap on the valuation front. Lightspeed's forward EV/sales multiple of 3.8 is well below its historical average and appears well within every investor's reach.

Bottom line

The macro concerns could keep Lightspeed stock range-bound in the short term. However, the economic reopening, new product launches, expansion into new geographies and verticals, and acquisitions provide a solid platform for long-term growth.

Furthermore, Lightspeed stock is trading cheap, and negatives appear to be priced in, limiting the downside risk.

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