Should You Buy Nuvei (TSX:NVEI) Stock Ahead of Its Q2 Earnings?

Description

These are indeed horrible times for growth investors. While we have heard "buy-the-dip" rhetoric for the last few months, the dip is only getting deeper. Leading value creators like **Shopify** and **Lightspeed Commerce** are seeing no respite whatsoever. Top payment processor **Nuvei** (TSX:NVEI)(NASDAQ:NVEI) is no different. It has halved this year and seen almost $6 billion in its market cap vanish so far.

Tech stocks and interest rate hikes

Some investors were prepared for the recent tech rout, given the steep rallies till last year and aggressive rate hikes this year. Agreed that it's easier to say "I called it!" in hindsight. However, given the earnings growth moderations and policy tightening, TSX tech stocks could see some more weakness.

Nuvei has been a solid growth story since the beginning. The 2021 revenues of the Canadian fintech almost doubled year-over-year while it maintained healthy margins. However, the stock went too far too soon, leading to irrational exuberance. And the growth story soon turned down as the stock went from $180 a share to $40 in just a matter of eight-odd months.

The payment processor is scheduled to report its Q2 2022 earnings on August 9. According to analysts' estimates, the company will report total revenues of $284 million for the quarter that ended on June 30, 2022. This represents a decent growth of 42% compared to Q2 2021.

What's next for Nuvei?

While many tech giants are issuing downbeat commentary, it will be interesting to see how the Nuvei management looks at the future. Higher e-commerce spending has been the key growth lever for Nuvei in the last few quarters. But now, consumers shifting back to brick-and-mortar stores could negatively affect Nuvei's topline.

Nuvei provides a payment processing platform for e-commerce, crypto, gambling and sports betting companies. It charges a transaction fee to merchants for providing a payment gateway. But that's not the only way Nuvei generates revenues. The global payments company also makes money from providing value-added services like analytics and insights to merchants.

Nuvei has a superior margin profile that stands tall among peers. Though its gross margins have declined in the last couple of years, they are close to a handsome 80%. Moreover, the management is confident of maintaining a healthy margin profile in the long term.

Apart from organic growth, the company also aims to drive growth through acquisitions. In addition, with a solid liquidity position and low debt, Nuvei could also enjoy some inorganic growth.

Valuation

NVEI stock still does not look too attractive from the valuation standpoint, despite the correction. It is trading 60 times earnings and looks expensive. But, at the same time, it is trading ~6 times sales, which does not look too stretched. So, while traditional valuation measures give mixed guides, the stock could trade weak mainly due to a worrisome macro picture.

We might see aggressive rate hikes from the Fed in the short term, which will likely weigh on growth stocks like NVEI. So, it looks like it would be better to wait for a protracted correction. As soon as inflation and the Fed reverses their ongoing course, growth stocks will upturn colossally.

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