



More Likely to 5x First: Snowflake vs. Datadog

Description

The ongoing pullback in the technology sector allows investors to go bottom-fishing and buy quality stocks at a discount. Two such cloud-based companies operating in the data analytics space include **Snowflake** ([NYSE:SNOW](#)) and **Datadog** ([NASDAQ:DDOG](#)). Shares of the two high-growth [tech stocks](#) are trading 55% below all-time highs, allowing investors to buy the dip and benefit from exponential gains in the next decade.

Let's see which, between Snowflake and Datadog, will be the first to turn a \$1,000 investment into \$5,000.

Is SNOW a good stock to buy?

Snowflake aims to remove the barriers that prevent enterprises from acquiring data-driven insights. In fact, Snowflake was the first to create a marketplace for data where organizations can buy, sell, or share live data. So, companies that join the marketplace gain access to multiple data points and services.

Snowflake has successfully built a data warehousing platform allowing its expanding base of enterprise customers to store, integrate and analyze from public cloud networks such as **Amazon** Web Services and **Microsoft** Azure.

Valued at a [market cap](#) of US\$56 billion, Snowflake has increased revenue from US\$96.66 million in fiscal 2019 (ended in January) to US\$1.21 billion in fiscal 2022, indicating annual growth rates of 133% in the last three years.

The cloud-based company uses a consumption-based billing model and is fast gaining traction, as the platform is used to develop and run data applications while supporting the sales plans of its customers.

In the second quarter of fiscal 2023, Snowflake increased its top line by 83% year over year, while its net retention rate stood at 171%. It means existing customers have increased spending on the Snowflake platform by 71% in the last year. Further, Snowflake's customer base has also increased by

36% year over year.

Analysts tracking SNOW stock expect its revenue to rise by 70% to US\$2.07 billion in fiscal 2023 and by another 50.3% to US\$3.11 billion in fiscal 2024. Its adjusted earnings per share are also forecast to improve from US\$0.01 per share in fiscal 2022 to US\$0.43 per share in fiscal 2024.

So, SNOW stock is valued at 18 times forward sales, which is very steep. But analysts remain bullish and expect Snowflake shares to rise by over 25% in the next year.

Is Datadog stock a buy or sell?

Datadog is another cloud-based company operating in the data analytics space. It expects to increase sales to US\$1.63 billion in 2022 — an increase of 58% year over year. Comparatively, its sales stood at US\$198 million in 2018.

In the first six months of 2022, Datadog reported an adjusted net income of US\$4.8 million compared to an adjusted loss in the year-ago period.

Datadog enjoys a solid network effect, as the platform can process more than 10 trillion signals daily. Each of these signals contributes towards making its artificial intelligence-powered models better at predicting performance issues. Datadog also has over 500 built-in integrations, allowing customers to reduce friction and improve operational efficiency.

In the last 12 months, Datadog sales surged 79% to US\$1.4 billion, while free cash flow almost tripled to US\$354 million. Its customer base grew by 29%, and existing customers increased spending by 30%, too, in the past year.

Datadog stock is priced at 12.5 times 2024 sales, which is also steep given current market conditions. But Wall Street expects the stock to surge by more than 60% by the fourth quarter of 2023.

The Foolish takeaway

While Snowflake is expensive compared to Datadog, the former is also growing at a fast clip. Further, Snowflake's higher customer retention rates and larger size make it a better bet compared to Datadog right now.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DDOG (Datadog Inc.)
2. NYSE:SNOW (Snowflake Inc.)

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1. Business Insider
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