Is Peloton Stock a Buy?

Description

The crash in **Peloton Interactive** (NASDAQ:PTON) stock has burned a hole in shareholders' pockets. Shares of the fitness equipment maker are down about 93% from the 52-week high of $99.36. Further, it has declined by about 80% year to date. Given the plunge in its price, Peloton stock looks attractive. However, ongoing challenges could continue to limit the recovery. Against this background, let's examine whether Peloton is worth investing in near the current price levels.

Why Peloton stock dropped 93%

While Peloton stock is trading significantly lower than where it was a year back, the ongoing challenges indicate that its problems aren't likely to end soon. Like most tech companies, the demand for Peloton's products skyrocketed amid the pandemic, with a record number of members joining its platform (its subscribers jumped from 700K to nearly three million).

However, Peloton stock reversed all of its gains, as widespread vaccinations led to the easing of restrictions and slowed demand for its connected fitness platform. Moreover, inventory and supply chain challenges further weighed on Peloton stock.

Peloton's revenue is trending lower both on a year-over-year and quarterly basis. Meanwhile, its margins remain pressured. In the fourth quarter (Q4), Peloton's revenue declined 28% year over year (down about 30% quarter over quarter). Further, its net loss widened to about $1.24 billion from $313 million in the prior year.

The pros and cons

Peloton is in the middle of a transformation and has announced restructuring measures to drive revenues and cash flows, trim costs, and strengthen the balance sheet. It has increased the prices for Bike+ and Tread, which would support its unit economics. However, this adds uncertainty over future demand trends.

Nevertheless, I see the outsourcing of its manufacturing for connected fitness hardware and the closure of its owned manufacturing activities in Taiwan as a positive step to support margins. Moreover, the transition toward third-party service providers for last-mile delivery in the U.S. will likely lower costs.

Further, Peloton's growing high-margin recurring revenues are positive. Moreover, a large addressable market and new product launches provide a multi-year growth opportunity for the company.

However, the uncertainty over demand trends remains a drag. Further, during the last quarter's conference call, Peloton's management stated that the connected fitness market in the U.S. has declined by about 51% year to date. Moreover, the company expects the market to remain challenging in fiscal year 2023, which will pose challenges for Peloton.

Though I am upbeat about Peloton's initiatives to support sales through the expansion of the distribution channels, partnership with **Amazon**, and Fitness-as-a-Service (FAAS) rental program, these measures are in the early stages and could take time to impact its financials meaningfully.

Bottom line

The uncertain demand trends and moderating connected fitness subscriber base will likely hurt its revenues. Meanwhile, its lack of profitability is a dampener. Also, the volatility in the stock market amid macro challenges could play spoilsport in the near term.

However, the company has announced initiatives to reinvigorate growth, reduce cash burn, and cushion margins, which is positive. Further, I find Peloton's valuation attractive. Peloton stock is trading at a forward enterprise-value to sales multiple of 1.2, which is significantly lower than the pre-pandemic levels of 4.7 and is near its all-time low. Given the pros and cons, investors can buy Peloton stock in small quantities near current levels. However, the recovery will take time until the growth reaccelerates.

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