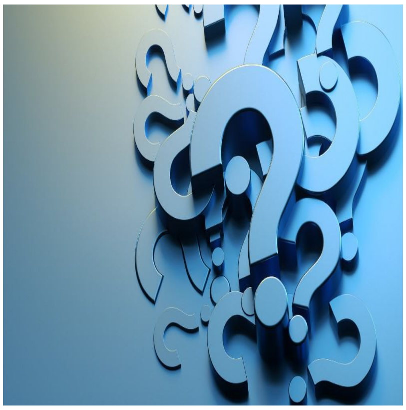

Is Palantir Stock a Buy?

Description

So far, this year has been terrible for tech stocks. High inflation, increasing interest rates, Russia's invasion of Ukraine, and uncertainty have taken a toll on tech stocks, including **Palantir Technologies** (NYSE:PLTR), which significantly underperformed the broader markets.

Shares of this software platform provider lost more than 70% of its value from the 52-week high of $27.11. Meanwhile, Palantir stock has decreased by about 57% in 2022. While investors' negative outlook on the overall tech stocks weighed on Palantir, the moderation in its revenue growth and margin headwinds further contributed to its decline.

What's limiting the upside in Palantir stock?

Palantir offers software with expertise in big data analytics and is used by governments and commercial customers to process data. While it continues to grow its customer base, its revenue growth is slowing. For instance, Palantir's revenue increased 26% year over year in the second quarter of this year. However, it moderated from the 31% growth in the first quarter (Q1) and 34% in Q4 of the prior year.

Further, Palantir's deal value remained flat at $3.5 billion in Q2 compared to Q1. Notably, a growing deal value is an indicator of future revenue growth. A stagnation in deal value is not a good sign for Palantir shareholders, as it implies further deceleration in revenue growth.

This is well reflected in Palantir's revised full-year forecast. Investors should note that management's 2022 revenue outlook fell short of its long-term outlook. During the Q1 conference call, Palantir's management stated that it expects its annual revenues to increase by 30% or more through 2025. However, during the Q2 conference call, management said that it expects 2022 revenues to be in the range of $1.9 billion to $1.902 billion, which reflects year-over-year growth of about 23% to 24%.

While its revenue growth is slowing, its margins remain under pressure. For the six months of 2022, its contribution margin has declined to 56% from 59%.

The road ahead

The ongoing digital shift and increased adoption of cloud and AI (artificial intelligence) provides a long-term growth opportunity for Palantir. Further, the focus shift towards the commercial market is positive. Additionally, given the considerable decline, Palantir stock is trading at a next 12-month enterprise value-to-sales multiple of 6.8, which is significantly lower than the historical average of over 20%.

However, the macro weakness, geopolitical turmoil, and margin headwinds could continue to drag and pressure Palantir stock. Also, the softness in the pace of government revenue growth is a concern. Notably, Palantir's government revenue growth slowed to about 13% in Q2 compared to a 16% increase in Q1.

Another key concern is its investments in companies, including SPACs (special purpose acquisition companies). Palantir invests in these companies with an arrangement that they would use Palantir's platform, which drives its deal and contract value. This model may not be sustainable in the long term. Recently, Palantir terminated several contracts related to investment commitments, impacting its deal value and growth.

Bottom line

The slowing top-line growth and margin headwinds could continue to pressure Palantir stock in the foreseeable future. I prefer to remain sidelined, unless growth reaccelerates and margin headwinds dissipate.

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