Better Buy: Docebo Stock vs. Thinkific Labs

Description

Growth stocks are still on sale. Rising interest rates have made most tech and consumer businesses less attractive. However, valuations do not accurately reflect the growth that some companies are witnessing. Enterprise software firms are still seeing double-digit quarterly growth and robust profits.

This environment has created bargains for long-term investors. Here are the two underrated tech stocks that should be on your radar for 2023 and beyond.

Docebo

Docebo (TSX:DCBO) has lost 56% of its value year to date and 68% from its peak in September 2021. There's no doubt that the stock is part of the wider tech bear market. However, unlike many of its peers, the company is cash flow positive and still growing at a respectable pace.

In its most recent quarter, Docebo delivered revenue growth of 48%. Meanwhile, the company registered $2.1 million in net income and $0.9 million in free cash flow in this recent quarter. The company's online education software is now used by 3,106 customers compared to 2,485 customers last year.

Simply put, Docebo's business continues to thrive. It might lose some customers if the upcoming recession is deep enough, but I would argue that this bleak outcome is already priced into the stock. Docebo stock trades at four times sales. It's a reasonably priced growth stock in this environment.

Thinkific Labs

Thinkific Labs (TSX:THNC) is another growth tech stock that should be on your radar. The Vancouver-based company helps corporate clients create knowledge products such as online courses, memberships, and educational videos. It has lost 79% of its value this year. That's one of the most intense selloffs in the market.

Nevertheless, its underlying business continues to thrive. Revenue was up 38% to $12.6 million in the second quarter of 2022. The management team expects quarterly revenue to expand 32% to $13.1-$13.3 million by the third quarter of 2022. Annual recurring revenue exceeds $50 million.

Meanwhile, the company's market capitalization is just $128 million. That means it trades at a price-to-annual recurring revenue ratio of 2.6. However, the company is still unprofitable, and I expect net losses to continue for the foreseeable future.

Better buy

Both Docebo and Thinkific have been severely beaten down in recent months. Thinkific's valuation is lower than Docebo's, but I prefer the latter company. That's because Docebo offers a more differentiated service. Docebo's corporate training software is more niche and, arguably, more lucrative. The company is also larger and more profitable than Thinkific.

As the bear market in tech stocks continues, both companies could see more pain ahead. The upcoming recession could slow down growth and impact client retention. However, I believe Docebo is more resilient in this environment and offers a better opportunity for long-term investors. Keep an eye on it.

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