



Is Lightspeed Stock a Buy in December 2022?

Description

Over the last few years, up until late 2021, many tech stocks, like **Lightspeed Commerce** ([TSX:LSPD](#)), were some of the best-performing growth stocks that you could own. However, as inflation started to pick up toward the end of 2021, and it was clear interest rates would soon start to rise, the entire tech sector has since plummeted down to unbelievable levels.

Lightspeed, of course, also faced a short report in late 2021, which saw its stock begin to fall significantly before the rest of the market.

And now, after more than a year where the economic and market environments have worsened, Lightspeed stock is now down over 86% from its all-time high reached in September of 2021.

Naturally, any time a stock plummets by over 80%, it's certainly worth consideration. However, that doesn't automatically make the stock a buy.

Investors have to determine how much value it has today and the potential that the business has going forward, which has nothing to do with how high the stock has traded in the past.

Not only is a stock's past performance not indicative of future returns, but if Lightspeed was clearly trading well overvalued last year, then there's a possibility it may never rally back to those prices again or could take years to do so.

This is why it's so crucial to analyze the stock today and determine if it's worth an investment based solely on fundamentals.

Does Lightspeed offer value today?

Before Lightspeed's selloff last year and the rest of the [tech sector](#) that soon followed, the stock was trading at a sky-high valuation. This isn't uncommon for stocks that are growing their business rapidly, as investors are willing to pay more to own these names.

However, when growth starts to slow or the economic environment changes, both of which happened to Lightspeed, it's also not uncommon to see valuation metrics fall significantly.

Today, the stock trades at an [enterprise value](#) (EV) to revenue ratio of just 1.8 times. At the start of the year, that was upwards of 7.9 times, and at the end of September last year, the stock's EV-to-revenue ratio was a whopping 23 times.

However, while Lightspeed stock is obviously much cheaper today, the market is hesitant for a reason. Not only has growth slowed naturally, but in this economic environment, Lightspeed's operations could continue to suffer.

Many of the businesses that Lightspeed serves offer discretionary goods or services, such as those in the retail and restaurant industries. Furthermore, we've already seen from some of its results that the company is experiencing higher churn from some of its smaller customers.

Lightspeed believes it can address this by shifting its business model away from trying to partner with as many companies as possible and instead focusing on larger, more established clients. However, while that strategy could work in its favour, it remains to be seen, and in this uncertain environment, investors don't want to take on too much risk owning the stock.

Is Lightspeed a top stock to buy today?

Lightspeed already trades at an attractive valuation today at just 1.8 times sales. For perspective, that's one of the lowest valuation metrics of all its peers, both in the payment processing space as well as looking at other [Software-as-a-Service](#) and e-commerce players.

Shopify and **Nuvei**, for example, two of its largest Canadian comparables, trade at 7.2 times and 3.9 times sales, respectively.

So, although its valuation certainly looks attractive, that depends largely on how well it can perform over the coming years, as it navigates this environment and continues to grow its business.

Lightspeed is by no means a sure thing, but no stock ever is. The company has a lot of work in front of it to not only continue growing its sales and expanding its client base but also to reach profitability.

With that being said, given that it's ultra-cheap and has a net cash position of over \$800 million, there should be little downside risk left in the stock today.

Therefore, if you're a long-term investor willing to wait for its turnaround and for this uncertain economic environment to subside, Lightspeed could offer significant returns over the coming years.

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