Is Square a Buy?
Is the stock’s recent sell-off a sign that more pain lies ahead? Or could this be the opportunity bulls have been waiting for?

Joe Tenebruso (TMFGuardian)
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Since its initial public offering on Nov. 19, 2015, Square’s (NYSE:SQ) shares have risen more than 400% in value. Yet the stock is currently going through a bit of a rough stretch, after the company’s first-quarter results disappointed Wall Street.

Is Square’s recent swoon a sign that the good times are over? Or could this pullback be a buying opportunity?

A steadily expanding ecosystem
Square’s hardware and software help entrepreneurs start, run, and grow their businesses. The company’s credit card processing system remains at the core of its business. Yet a steadily expanding suite of ancillary services -- such as payroll,
marketing, and inventory management -- is helping to fuel Square's growth and widen its competitive moat.

Once Square acquires a new customer, it’s often able to sell additional services to that business. Each additional service helps to increase its customers’ switching costs, thereby making it less likely they will defect to a competitor.

Square knows this, and it’s investing aggressively in new business lines. Square Capital, the company's business-lending service, facilitated $508 million worth of loans in the first quarter, representing a 50% year-over-year increase. Cash App, Square's peer-to-peer payment platform, has seen its usage soar over the past year. And Caviar, Square’s food delivery service, is expanding rapidly. Together, these services -- along with a host of others -- comprise an ever-growing ecosystem that helps to insulate Square from the competition.

A massive addressable market
Square has long runways for growth still ahead. Global card payment volume will exceed $78 trillion by 2027, according to the Nilson Report. Yet even after years of rapid expansion, Square’s gross payment volume totaled less than $85 billion in 2018. Thus, even if it’s able to capture just a small fraction of this massive market, there's still plenty of room for Square to grow its revenue and profits exponentially in the years ahead.

Square Capital and Cash App enjoy similar expansion opportunities. They, too, hold the potential for exponential growth and are likely to be powerful sources of incremental profits in the coming years.
A discounted price

Despite these impressive growth prospects, Square’s stock is down more than 30% from its 52-week high. Investors appear to be focusing on the company’s near-term guidance, rather than on its long-term expansion potential. Shares now trade for about 60 times analysts’ forward earnings estimates -- a premium price, but one that’s not unreasonable considering that Square’s earnings are projected to increase by nearly 50% annually over the next five years.

All told, Square’s hardware and software are becoming increasingly valuable to millions of small businesses. That makes its stock an excellent play on the rise of entrepreneurship around the world. As such, investors should consider using this recent pullback in its share price as an opportunity to buy Square stock at a discount.

10 stocks we like better than Square

When investing geniuses David and Tom Gardner have a stock tip, it can pay to listen. After all, the newsletter they have run for over a decade, Motley Fool Stock Advisor, has quadrupled the market.*

David and Tom just revealed what they believe are the ten best stocks for investors to buy right now… and Square wasn’t one of them! That’s right -- they think these 10 stocks are even better buys.

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STOCKS

Square
NYSE: SQ
$67.25 $-1.17 (-1.71%)

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