ꜱQᴜᴀʀᴇ: ᴀ ᴅɪꜱʀᴜᴘᴛɪᴠᴇ ꜰᴏʀᴄᴇ ɪɴ ᴛʜᴇ ꜰɪɴᴀɴᴄɪᴀʟ ɪɴᴅᴜꜱᴛʀʏ ⇨

𝐖𝐡𝐚𝐭 𝐝𝐨𝐞𝐬 𝐒𝐪𝐮𝐚𝐫𝐞 𝐈𝐧𝐜. 𝐝𝐨 𝐭𝐨 𝐠𝐞𝐧𝐞𝐫𝐚𝐭𝐞 𝐫𝐞𝐯𝐞𝐧𝐮𝐞? ➡

Square, Inc. provides, together with its subsidiaries, payment and point-of-sale solutions in the United States and internationally. ➡ The company’s commerce ecosystem includes point-of-sale software and hardware that offers sellers to payment and point-of-sale solutions ➡ It provides hardware products, including Magstripe reader, which enables swiped transactions of magnetic stripe cards; Contactless and chip reader that accepts Europay, [$MA (Mastercard)](https://www.etoro.com/markets/ma) , and [$V (Visa)](https://www.etoro.com/markets/v) (EMV) chip cards and Near Field Communication (NFC) payments ➡ The company also offers various software products, including Square Point of Sale; Square Virtual Terminal; Square Appointments; Square for Retail; Square for Restaurants; Square Invoices, Square Online Store; Square Loyalty, Marketing, and Gift Cards; and Square Dashboard ➡ Additionally, it provides Cash App, which enables to send, spend, and store money; and Weebly that offers customers website hosting and domain name registration solutions

⇨ 𝐑𝐄𝐖𝐀𝐑𝐃𝐒:

➡ Earnings are forecast to grow 74.01% per year

➡ Became profitable this year

⇨ 𝐑𝐈𝐒𝐊 𝐀𝐍𝐀𝐋𝐘𝐒𝐈𝐒:

➡ Debt is not well covered by operating cash flow

➡ Shareholders have been diluted in the past year

⇨ 𝐈𝐬 [$SQ (Square, Inc.)](https://www.etoro.com/markets/sq) 𝐮𝐧𝐝𝐞𝐫𝐯𝐚𝐥𝐮𝐞𝐝 𝐜𝐨𝐦𝐩𝐚𝐫𝐞𝐝 𝐭𝐨 𝐢𝐭𝐬 𝐟𝐚𝐢𝐫 𝐯𝐚𝐥𝐮𝐞 𝐚𝐧𝐝 𝐢𝐭𝐬 𝐩𝐫𝐢𝐜𝐞 𝐫𝐞𝐥𝐚𝐭𝐢𝐯𝐞 𝐭𝐨 𝐭𝐡𝐞 𝐦𝐚𝐫𝐤𝐞𝐭?

Current Share Price: 227.75

$ Fair Value of the share: 64.25

$ Therefore, the current price is 254.5% above its fair value. That means stock is heavily overvalued.

⇨ 𝐇𝐨𝐰 𝐚𝐫𝐞 𝐭𝐡𝐞 𝐢𝐦𝐩𝐨𝐫𝐭𝐚𝐧𝐭 𝐫𝐚𝐭𝐢𝐨𝐬 𝐨𝐟 𝐭𝐡𝐞 [$SQ](https://www.etoro.com/markets/sq)?

➡ 𝐏𝐫𝐢𝐜𝐞 𝐓𝐨 𝐄𝐚𝐫𝐧𝐢𝐧𝐠𝐬 𝐑𝐚𝐭𝐢𝐨:

Its PE Ratio of 321.3x is poor compared to the US IT industry average of 36.9x.

Its PE Ratio of 321.3x is poor compared to the US Market average of 21x

➡ 𝐏𝐫𝐢𝐜𝐞 𝐭𝐨 𝐄𝐚𝐫𝐧𝐢𝐧𝐠𝐬 𝐆𝐫𝐨𝐰𝐭𝐡 𝐑𝐚𝐭𝐢𝐨: Square Inc. has a PEG Ratio of 4.3x which is poor compared to US market

➡ 𝐏𝐫𝐢𝐜𝐞 𝐭𝐨 𝐁𝐨𝐨𝐤 𝐑𝐚𝐭𝐢𝐨: Square Inc. is overvalued based on its PB Ratio of 49.4x compared to the US IT industry average of 4.9x

⇨ 𝐇𝐨𝐰 𝐢𝐬 𝐒𝐪𝐮𝐚𝐫𝐞 𝐈𝐧𝐜. 𝐟𝐨𝐫𝐞𝐜𝐚𝐬𝐭 𝐭𝐨 𝐩𝐞𝐫𝐟𝐨𝐫𝐦 𝐢𝐧 𝐭𝐡𝐞 𝐧𝐞𝐱𝐭 𝟏 𝐭𝐨 𝟑 𝐲𝐞𝐚𝐫𝐬 𝐛𝐚𝐬𝐞𝐝 𝐨𝐧 𝐞𝐬𝐭𝐢𝐦𝐚𝐭𝐞𝐬 𝐟𝐫𝐨𝐦 𝐯𝐚𝐫𝐢𝐨𝐮𝐬 𝐚𝐧𝐚𝐥𝐲𝐬𝐭𝐬?

𝑬𝒂𝒓𝒏𝒊𝒏𝒈𝒔 𝒗𝒔 𝑴𝒂𝒓𝒌𝒆𝒕: SQ's earnings of 74% per year are forecast to grow faster than the US market which is 21.5% per year

𝑹𝒆𝒗𝒆𝒏𝒖𝒆 𝒗𝒔 𝑴𝒂𝒓𝒌𝒆𝒕: SQ's revenue of 20.6% per year is forecast to grow faster than the US market which is 10.3% per year

𝑯𝒊𝒈𝒉 𝑮𝒓𝒐𝒘𝒕𝒉 𝑬𝒂𝒓𝒏𝒊𝒏𝒈𝒔: Its earnings are expected to grow significantly over the next 3 years

𝑭𝒖𝒕𝒖𝒓𝒆 𝑹𝑶𝑬: SQ's Return on Equity is forecast to be 26.2% high in 3 years

⇨ 𝐇𝐨𝐰 𝐡𝐚𝐬 𝐒𝐪𝐮𝐚𝐫𝐞 𝐈𝐧𝐜. 𝐩𝐞𝐫𝐟𝐨𝐫𝐦𝐞𝐝 𝐨𝐯𝐞𝐫 𝐭𝐡𝐞 𝐩𝐚𝐬𝐭 𝟓 𝐲𝐞𝐚𝐫𝐬?

𝑬𝒂𝒓𝒏𝒊𝒏𝒈𝒔 𝑻𝒓𝒆𝒏𝒅: It has become profitable over the past 5 years, growing earnings by 68.9% per year

𝑬𝒂𝒓𝒏𝒊𝒏𝒈𝒔 𝒗𝒔 𝑰𝒏𝒅𝒖𝒔𝒕𝒓𝒚: It has become profitable in the last year, making it difficult to compare its past year earnings growth to the IT industry which is 4.2%

⇨ 𝐇𝐨𝐰 𝐡𝐞𝐚𝐥𝐭𝐡𝐲 𝐢𝐬 𝐒𝐪𝐮𝐚𝐫𝐞 𝐈𝐧𝐜. 𝐟𝐢𝐧𝐚𝐧𝐜𝐢𝐚𝐥𝐥𝐲?

➡ 𝐅𝐢𝐧𝐚𝐧𝐜𝐢𝐚𝐥 𝐏𝐨𝐬𝐢𝐭𝐢𝐨𝐧 𝐀𝐧𝐚𝐥𝐲𝐬𝐢𝐬: Square Inc.’s short term assets ($6.5B) exceed its short term liabilities ($3.8B) Square Inc.’s short term assets ($6.5B) exceed its long term liabilities ($2.2B)

➡ 𝐃𝐞𝐛𝐭 𝐭𝐨 𝐄𝐪𝐮𝐢𝐭𝐲 𝐇𝐢𝐬𝐭𝐨𝐫𝐲 𝐚𝐧𝐝 𝐀𝐧𝐚𝐥𝐲𝐬𝐢𝐬: 𝑫𝒆𝒃𝒕 𝑳𝒆𝒗𝒆𝒍 : Its debt to equity ratio of 108.2% is considered very high and its matter of concern for investors

𝑹𝒆𝒅𝒖𝒄𝒊𝒏𝒈 𝑫𝒆𝒃𝒕: Its debt to equity ratio has increased from 0% to 108.2% over the past 5 years!!!

𝑫𝒆𝒃𝒕 𝑪𝒐𝒗𝒆𝒓𝒂𝒈𝒆: Its debt is not covered by operating cash flow of 14.4%

⇨ 𝐂𝐨𝐧𝐜𝐥𝐮𝐬𝐢𝐨𝐧:

Square has a solid business on the seller-side of the business but there are questions about whether Square can materially move upmarket from its origins in the small business market and whether the Cash App on the consumer side can successfully compete over the long term against many powerful players. I believe Square is among the best fin-tech companies in the market, is a disruptive company and is in the early stages of monetising its Cash App user base. Will Square become "one-stop" for all financial needs? I don't know, but time will tell us. In addition, Cash App should help Square gain substantial revenue growth and margin expansion over the next several years. Therefore despite the high valuation, I consider Square a long term (+5 years) 𝒃𝒖𝒚 based upon Cash App's massive upside potential