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Palantir Stock: Almost Crashing To Its IPO Lows

May 01, 2022 7:16 AM ET | **Palantir Technologies Inc. (PLTR)** | 36 Comments | 17 Likes

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Summary

Palantir is scheduled to report its Q1 card on May 9. It will be a highly anticipated card given the substantial decline in its stock over the past six months.

We believe the Russia-Ukraine conflict has renewed impetus and interest in Palantir's platform. But, its platform has not been well understood by some investors.

We discuss the key aspects to watch as Palantir heads into its Q1 card.

We reiterate our Buy rating on PLTR stock as a speculative position.

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Investment Thesis

Palantir Technologies Inc. (NYSE:[PLTR](#)) is heading into its keenly watched [FQ1'22 earnings card](#) on May 9, even as its stock last traded near its February lows.

The initial momentum surge from the start of the Russia-Ukraine conflict has almost been fully digested. As a result, we believe that investors' focus has returned to the Fed's accelerated / front-loading rate hike path. Given Palantir's deeply unprofitable business model, investors should expect such volatility.

Nonetheless, we noticed that Palantir stock price targets ((PTs)) had been raised as Street analysts have become more confident in its long-term opportunities. As the conflict in Ukraine continues to drag on longer, western governments could be spurred into dedicating higher defense spending over the long term. Therefore, Palantir could be one of the prime beneficiaries, given its success with the US Department of Defense.

Furthermore, Palantir COO Shyam Sankar also highlighted that its platform had been utilized for humanitarian efforts in the refugee crisis in Ukraine. Therefore, we believe that the European governments and enterprises have been given highly valuable first-hand insights into Palantir's platform and potential use cases.

In addition, our price action analysis also suggested that PLTR stock could touch and re-test its "ultimate bottom" of its 2020 IPO lows. While still early, we believe that could be the impetus for the stock to re-rate and for momentum to return for a much-needed rebound.

As such, we reiterate our Buy rating on PLTR stock. However, we reiterate that it's only appropriate for a speculative position given its negative profitability.

Palantir Is More Than Your Data Platform

Palantir's platform has not been well understood by some investors. Moreover, the company has also been pretty reticent in articulating the intricacies of its platform previously, given its focus on government and large enterprise customers.

However, Palantir has since revised its commercial strategy to expand its focus to smaller enterprise customers. As a result, it has modularized its Foundry platform to spur more rapid and more straightforward adoption by its corporate customers. Moreover, it has also introduced usage-based pricing to reduce the friction in adoption, helping its new customers in their adoption journey tremendously.

Notably, the company has also been more active in "educating" the corporate community on the critical differentiation of its platform. Palantir elucidated that Foundry is the operating system that "[fuels your data platform](#)." Therefore, companies that deploy Foundry build their data platform on top of it. These data platforms include solutions by Snowflake ([SNOW](#)), BigQuery ([GOOGL](#)) ([GOOG](#)), AWS Redshift ([AMZN](#)), etc. PLTR accentuated (edited):

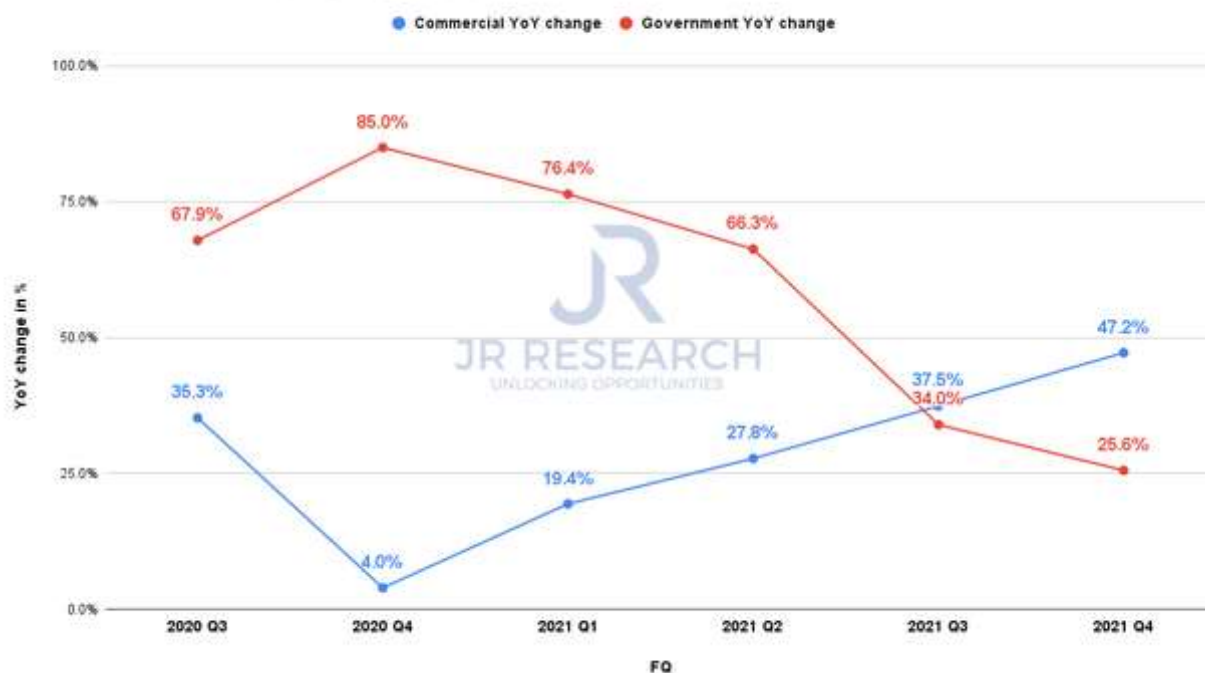
Palantir Foundry is sometimes incorrectly thought of as a data platform solution. For organizations that are earlier in the digital journey, Foundry can serve this purpose. Foundry's focus, however, extends beyond those capabilities toward its ultimate aim: enhancing the operational decisions that constitute an enterprise. While data platforms do important work in centralizing and managing data in a single place, Foundry is designed to connect analytics to operations - continuously and dynamically in a complex world. As a result, it is best thought of as an operating system that coordinates the interplay of data, models, and decisions in an enterprise.

- [Palantir](#)

Therefore, Palantir doesn't consider these data platforms their key competitive threats. Instead, these platforms are critical partners as organizations require more complex AI analytics as they transition more workloads to the cloud. Consequently, Palantir should be regarded by investors as one of the key beneficiaries of the increasing digitization and cloud transition.

But, Investors Continue To Focus On Palantir's Profitability

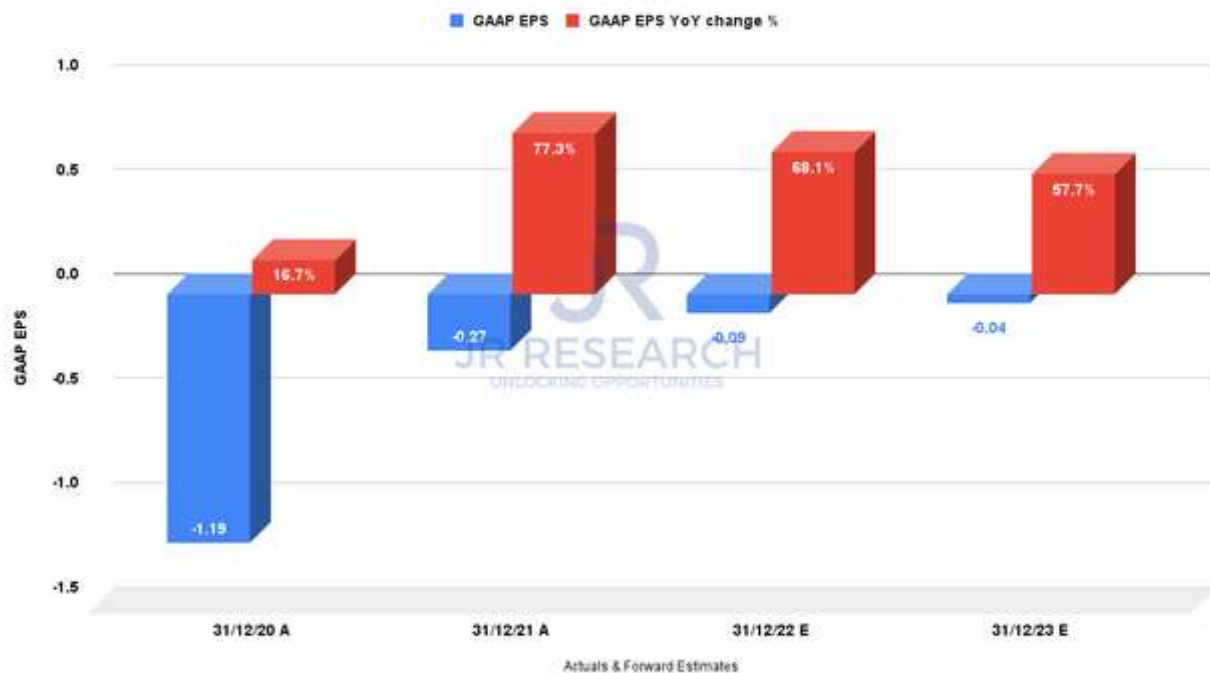
Palantir revenue YoY change by segment (%)



Palantir revenue segment YoY change % (Company filings)

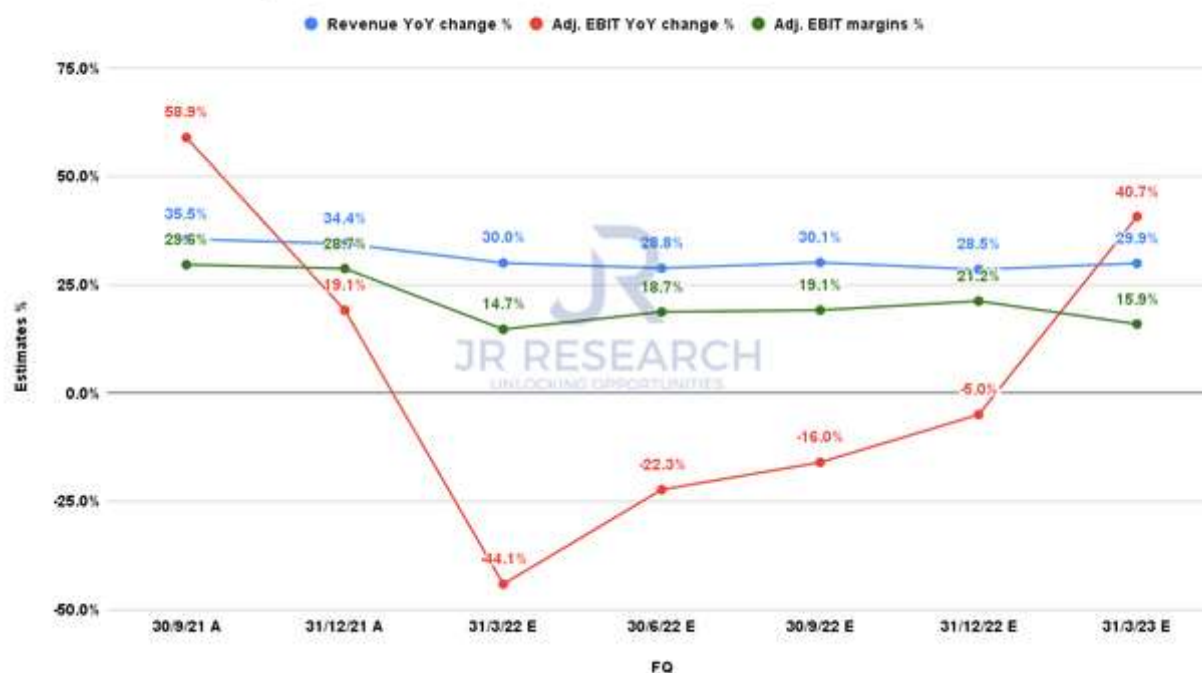
The increasingly challenging macro environment has caused significant compression in the SaaS space over the past 6 months, given their embedded growth premium. Furthermore, investors were also concerned with the marked deceleration in Palantir's government segment growth. Despite the uptick in its commercial growth, investors were concerned about the durability of its growth cadence, coupled with the increasing contribution from its SPACs investments. The market didn't like the slowdown in government revenue, even though commercial has picked up the pace.

Palantir GAAP EPS consensus estimates



Palantir GAAP EPS consensus estimates (S&P Capital IQ)

Palantir revenue and Adj. EBIT consensus estimates %



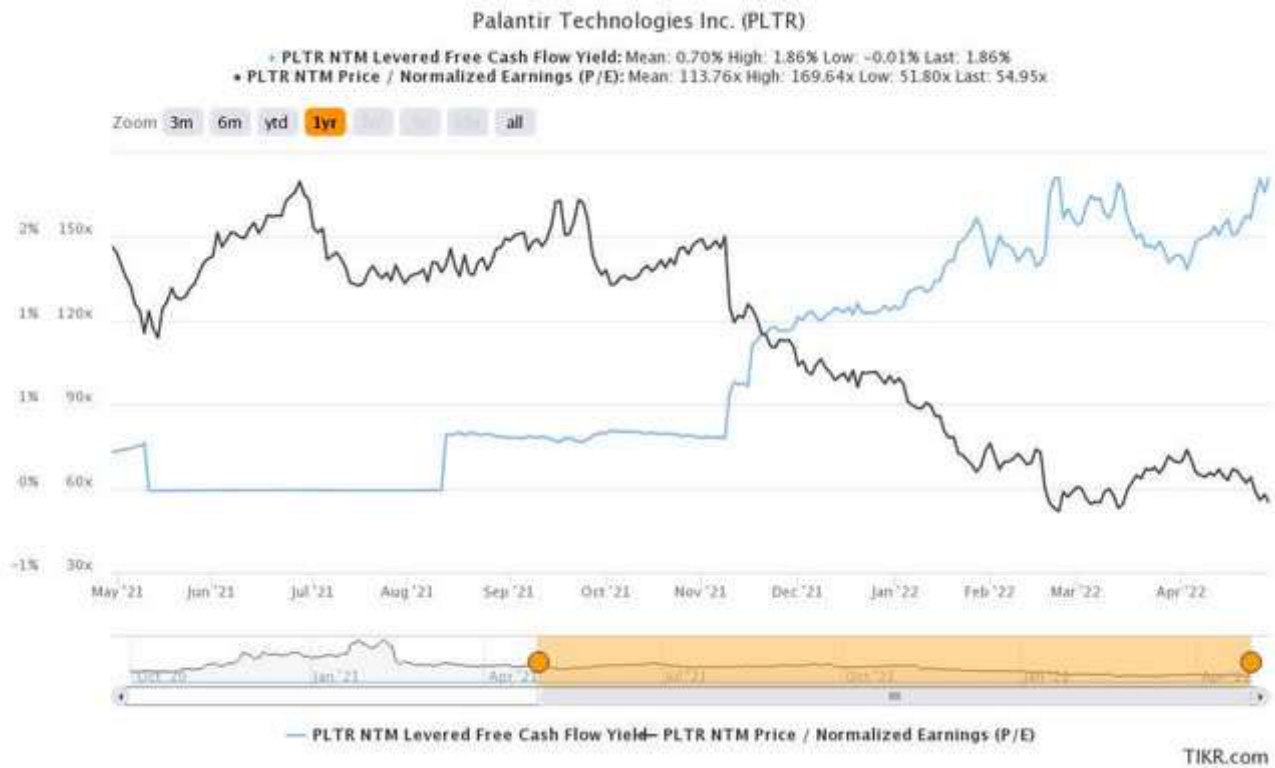
Palantir revenue and Adj. EBIT consensus estimates (S&P Capital IQ)

Moreover, Palantir's not expected to report GAAP net income profitability over the next two years. However, we should expect a line of sight visibility toward GAAP profitability on operating terms. Therefore, investors should continue to monitor its operating leverage gains closely.

Furthermore, PLTR's adjusted EBIT margins had been revised downwards after its FQ4 card to reflect more significant investments in FY22. As a result, the sell-down post FQ4 was justified, given Palantir's negative profitability. But, we should also expect to observe an inflection point in its operating profit growth from Q2'22 and see improving margins moving forward.

Therefore, Palantir's Q1 earnings need to be carefully monitored to ensure Palantir is on track. But, given the low expectations in its consensus estimates, we think Palantir has a much easier bar to clear than in FQ4.

Is PLTR Stock A Buy, Sell, Or Hold?



PLTR stock NTM normalized P/E and NTM FCF yield % (TIKR)



PLTR stock price chart (TradingView)

PLTR stock last traded at an NTM normalized P/E of 55x and an NTM FCF yield of 1.86%. Therefore, its valuation is hardly cheap despite being FCF profitable. Moreover, even though it has been digested, there's still a substantial growth premium in its valuation. Hence, we believe it remains a speculative play despite its competitive moat.

Nonetheless, as seen in its long-term price chart above, we expect a potential re-test at its IPO bottom. There have also been several instances of significant bull traps, which drew in dip buyers before the sellers unleashed their avalanche of sell orders.

Therefore, we expect the next significant battle between the bulls and bears to potentially occur at its IPO bottom. Despite that, we think its valuation and price action favor a more reasonable risk/reward upside than previously.

However, investors should allocate appropriately for a speculative position and spread their purchases.

Therefore, *we reiterate our Buy rating on PLTR stock.*

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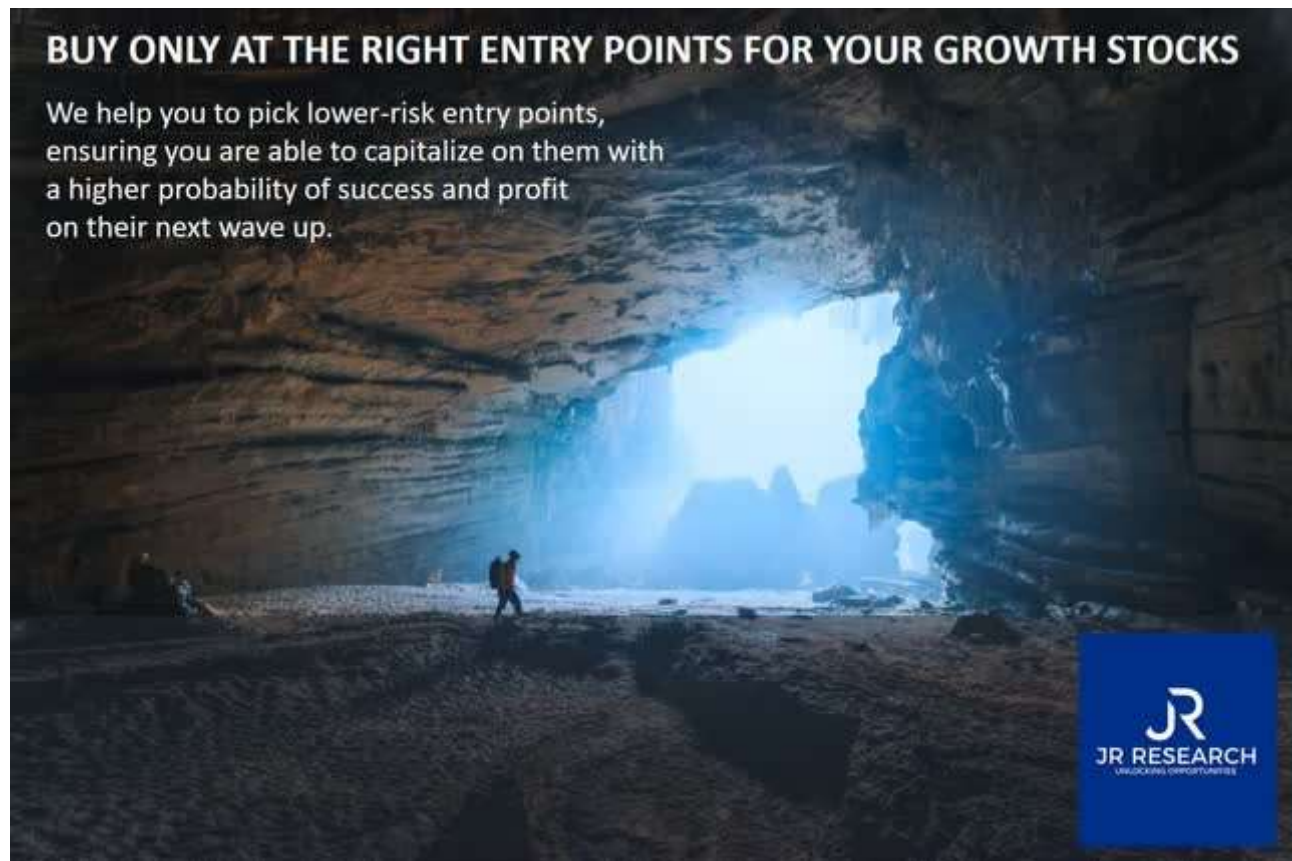
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