



When Is the Right Time to Buy Shopify Inc.?

Description

Shopify Inc. (TSX:SH)(NASDAQ:SHOP) only started trading last week, but it has already caught everyone's attention.

So, is now the time to buy Shopify? Or should you wait for a better opportunity? Below we take a closer look.

An introduction to Shopify

When small businesses want to sell their products online, they often must rely on complex technologies. Shopify provides a cleaner solution, one that's easier to set up and costs a lot less.

And the company has been remarkably successful thus far, doubling its revenues in both 2013 and 2014. There's no sign of Shopify slowing down either.

The company is still unprofitable, but that's perfectly understandable. At a stage like this, Shopify's number one priority should be growth.

An expensive stock

These days seemingly everyone wants a piece of the company. And for that reason, the stock is very expensive. The company is valued at just over US\$2 billion, more than 12 times the current revenue run rate. That's a big multiple for any company, and an even bigger one when there are no profits to speak of.

For this reason, Shopify must keep growing very quickly to justify its stock price. It's impossible to say for sure whether this will happen. So, where does that leave us?

A better opportunity will emerge

When hot new technology companies start trading publicly, everyone wants a piece, and that includes short-term investors. These people aren't looking to hold the stock long term; instead, they just want to

ride out a stock's momentum. We've seen this countless times before.

Take **Twitter** as an example. After going public in November 2013, the stock rocketed up to US\$70, well past the US\$26 IPO price. Then the company posted some mediocre numbers, and seemingly everyone sold at one. The stock fell by over 45% in less than five months—this included a fall of 24% in one day!

Clearly, Twitter had some short-term investors, and when they sensed a loss in momentum, they sold very quickly. And I have no doubt that lots of these investors hold Shopify.

So, what does this mean? Well, all you have to do is wait for Shopify to have a couple of bad quarters. This could mean a slowdown in growth, or (preferably) an uptick in expenses. The stock would then likely tumble, creating a perfect buying opportunity.

It could take a while. It may even take years. And you may be kicking yourself the entire time as the stock surges.

But at this point, Shopify is a very popular stock, making an investment very risky. If you're willing to wait, a much better opportunity will likely emerge.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)

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