



## Why Facebook May Send Shopify Inc. Shares Soaring

### Description

**Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)) is arguably Canada's hottest stock right now, and for good reason. The Ottawa-based software company has been growing at breakneck speed, doubling its revenues in each of the last two years.

Unfortunately for investors, this has resulted in a lofty valuation. The company's market capitalization stands at over US\$2 billion, a big number for a company with US\$105 million in revenues last year. Even worse, Shopify still does not generate any net income.

Thus, Shopify's stock price rests on one big question: how sustainable is its growth rate? Put more simply, if Shopify can keep up its rapid growth, even for just a few years, the stock price will likely take off. But if the company shows any signs of slowing down—perhaps due to increasing competition—there's a lot of downside for the shares. It's a risky bet for any investor to make.

Yet there's one reason to be particularly optimistic, and it has to do with **Facebook Inc.** (NASDAQ:FB).

### The Facebook Buy button

Like Shopify, Facebook has an expensive stock price relative to most financial metrics. Investors are clearly hoping the social network can generate more revenue from its 1.5 billion monthly active users. An obvious way for Facebook to achieve this is by becoming more of an e-commerce player.

Previous efforts by Facebook haven't gone well. It shut down its gift store experiment in 2014 after just two years. It also attempted to allow mobile users to auto-fill their payment details in third party applications.

Last month we found out what Facebook's third attempt will look like. The company is teaming up with Shopify to test a Buy button, one that will allow Facebook users to make purchases straight from Facebook. Importantly, the Buy button won't require users to leave Facebook, which is a top priority for the company.

The test was available only to "a group of U.S.-based Shopify merchants," but if all goes well, then this

could be a massive opportunity for Facebook.

### **What this means for Shopify**

Without question, this could be an even bigger opportunity for Shopify. Small merchants see Facebook as a tremendous opportunity to generate increased sales, and going through Shopify has just become the most effective way to achieve this goal.

Better yet, if Shopify is able to get an exclusive relationship with Facebook, it will have an insurmountable advantage over its competitors. There could even be opportunities down the road with other social networking giants such as **Twitter**.

Such outcomes are still a long way off, and one can only speculate until then. But in the meantime, Shopify is clearly cementing its lead by establishing this partnership with Facebook. All of a sudden, achieving a 100% growth rate in the years ahead looks a lot more realistic.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

1. NASDAQ:META (Meta Platforms Inc.)
2. NYSE:SHOP (Shopify Inc.)

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