



Why Shopify Inc. Shares Are up 12%

Description

When **Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)) first went public, there were plenty of skeptics. *The Globe and Mail* reporter Barrie McKenna said buying the shares may be “just wishful thinking,” and that we would “be wise to stay off the bandwagon.” He even said Shopify could be the next **BlackBerry** or Nortel.

Those comments were made in late May, with Shopify’s Canadian-listed shares were trading at about \$33.

Now, as of this writing, they trade at \$50. A big reason for this surge is some outstanding results for its first quarter as a public company. So, does this mean the shares are even more overpriced? Or does it mean the skeptics were wrong, and you should jump on board?

Can the growth last?

For those of you unfamiliar with Shopify, the company makes it easier for small businesses to sell their products online. It’s a service that’s badly needed in today’s economy, and Shopify has established itself as the best-in-class provider.

The story gets even better. Shopify makes money off of annual subscriptions, allowing the company to generate consistent revenue from each customer. And attrition is very low. So, it shouldn’t be surprising that Shopify has been growing at breakneck speed. In fact, total revenues doubled in both 2013 and 2014.

That said, there are certainly some concerns. One is that the company still doesn’t generate any profits. Secondly, competition is sure to heat up. Finally, the stock is very expensive relative to most traditional financial metrics.

So, the big question with Shopify is a very simple one: how long can the company keep posting such impressive growth numbers? The answer will, without a doubt, determine its stock’s performance.

Some very strong results

To put it mildly, Shopify is off to a strong start. For the quarter ended June 30th, Shopify's revenues increased by 90% year over year. Its gross merchandise volume growth exceeded 100%. The number of merchants reached 175,000, up from 160,000 at the time of the IPO. All of these results were well ahead of analyst estimates.

This shouldn't be that surprising. Shopify generated a lot of buzz with its IPO, which likely served as effective advertising for its services. It's quite likely this momentum will last for at least another year.

Should you buy?

If Shopify is able to keep up this kind of growth for the next five years, its share price will continue to climb. So, it's certainly not too late to step in. On the other hand, it would only take one or two quarters of slowing growth to send the stock down like a rock.

In my opinion, it's best to wait for one of these bad quarters. If and when it arrives, you'll see most growth-oriented investors selling at the same time. That will likely send the stock down by more than it should, leaving the rest of us with a golden opportunity.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)

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