Is Shopify Inc. a Bargain After Falling 30% in 1 Month?

Description

When **Shopify Inc.** (TSX:SH)(NASDAQ:SHOP) went public earlier this year, demand for its shares was through the roof. The company even raised its IPO price twice from US$13 per share all the way up to US$17.

But even this price was far too low. On Shopify's first day as a public company, its share price closed above US$25. And that was only the beginning. After posting very strong quarterly numbers, its share price surged into the low US$40s in early August.

But in the last month Shopify's shares have fallen by about 30%. This hasn't really been caused by any company-specific news. Instead, there has been a broad sell-off in equities, which tends to affect growth stocks disproportionately.

So, without question, Shopify shares are a better opportunity today than they were a month ago. But does that make them worth buying?

A big price

By most standards, Shopify shares are very expensive, even after the recent share price drop. At US$27 per share, the stock is valued at nearly 14 times revenue, a large number for a company that still doesn't generate any net income.

This is to be expected for a company like Shopify. The company has been growing by roughly 100% annually over the past three years, and could probably generate significant profits if that was the top priority.

So, over the next five years, this is really just a question about Shopify's growth rate. If the company can keep up its torrid pace, then the stock will surely take off. But if the company slows down, the stock price has a long way to fall.

The case against buying Shopify

Shopify operates in a ferociously competitive environment. For example, you can get similar services from companies such as BigCommerce, LemonStand, Volusion, and 3dcart, just to name a few. By next year the list will surely be even larger.

This doesn't mean Shopify is going to shrink; in fact, you should expect the company to keep winning new customers. But with such an expensive stock price, all it takes is a deceleration in the growth rate to send the stock plunging further.

These kinds of bets can work very well in the end—**Amazon** is one example. But for every Amazon, there are countless other tech companies that fail to live up to expectations.

The case for buying Shopify

Shopify may seem like just another high-growth tech stock, but there are some important differences. First of all, it provides a subscription-based service rather than just a product people buy once. That means it doesn't have to always search for new customers to keep making money.

Secondly, the company provides a mission-critical service to its customers. Think about it: if your e-commerce site is using Shopify's service, you're not going to switch to LemonStand just to save a few bucks. The risk and hassle is just too great.

This means Shopify can count on its existing customers for a very long time, and can achieve at least some growth by selling additional services to them. Some of these newer services could be very lucrative, such as a "Buy Button" integrated with **Facebook**.

The verdict

There's a strong case to be made for buying Shopify stock today. Personally, I find it just a bit too risky, but this is without a doubt worth keeping an eye on. Stay tuned.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Tech Stocks

Date
2025/07/03
Date Created
2015/09/08
Author

bensinclair