



Shopify Inc. Is Absurdly Cheap at This Price

Description

There's no shortage of stocks that have been bludgeoned in 2016, but the decline in **Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)) has been especially severe. In fact, the stock has fallen by roughly 50% since October 9. And now the shares are absurdly cheap.

We take a closer look below.

Breaking down the numbers

What separates Shopify from many other companies is the loyalty of its merchants. In fact, any attrition is typically cancelled out by growth from its remaining client base.

That makes each merchant extremely valuable to Shopify. When doing the math, you could make the case that each one is worth US\$5,000. And since Shopify has 200,000 merchants (as of September 30), you could say those merchants are worth US\$1 billion.

On top of that, Shopify is spending less than US\$1,000 on sales and marketing for each new merchant it adds. This creates tremendous value for the company—using these numbers, Shopify added US\$200 million in value through the first three quarters of this year. Putting a 10 times multiple on that results in another US\$2 billion in value for the company.

Even after deducting some money for overhead costs, Shopify's US\$1.4 billion market value starts to look like a serious bargain.

Why have the shares fallen?

First of all, Shopify's stock hasn't fallen because of poor numbers. In fact, the company handily beat expectations last quarter.

Part of the fall has been caused by an overall market decline. And, of course, growth stocks tend to be severely punished during market declines.

Secondly, there may be some currency effects. Shopify reports its results in U.S. dollars, and we've seen other such companies report negative currency effects. But Shopify makes over two-thirds of its revenue in the United States (according to its IPO prospectus), and its employees are based in Canada. So the falling loonie may even be a positive.

Finally, Shopify's lock-up period ended in November, allowing insiders to sell. It's no coincidence the stock dropped over the following weeks.

But none of these events truly justify a fall in Shopify's stock like this. And that's created a golden opportunity.

The upside

Just from using the numbers above, Shopify seems very undervalued. But it gets even better.

For starters, the company continues to branch out into new services, such as managing point-of-sale transactions. This not only leads to increased revenue, but also should result in higher customer loyalty.

Secondly, Shopify is targeting larger businesses through its Shopify Plus platform, providing another avenue for growth. Shopify Plus should also be beneficial for margins.

Finally, as the company continues to get bigger, it should be able to achieve even greater scale. For example, R&D costs could be spread over a wider organization.

So when putting it all together, Shopify is a great stock to own. I'm very happy to be a shareholder.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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