Shopify Inc. Is a Great Buy at Current Prices

Description

Shopify Inc. (TSX:SH)(NYSE:SHOP) is one stock that I have had my eyes on for some time. At present-day prices it makes for an incredibly attractive buy for investors who are thinking about long-term growth. I believe in this stock so much that it's one of my favourite Canadian tech stocks.

The reason for that is because of its business model. What separates the strongest tech companies from the weakest is the ability to build a platform. The more dependent an individual is on a company's platform, the more powerful that company is.

What Shopify offers is the ability for businesses to launch an e-commerce experience for much less than it would cost to hire a developer to do a custom one. Therefore, small businesses that still want the ability to sell online can now generate revenue with a simple subscription business. This is good for Shopify for two reasons: once a customer joins its platform, it becomes less likely that the person will leave, and Shopify can generate consistent, monthly revenue from that customer.

This means that Shopify is able to justify its cost of $1,000 in sales/marketing to get a new seller onto the platform. If the average cost for a plan is $79, the business will generate $948 in revenue after one year. As time goes on, these same customers become significantly high margin profit for the company.

Presently, Shopify has around 200,000 merchants using the platform. As those numbers increase, Shopify will be able to spread costs to further clients, thus increasing the total margin that it is able to earn a profit on.

Despite this, the share prices are depressed, which gives investors a great chance to buy. There are a few reasons for the drop in price. The first has to do with the overall market. Dividend stocks tend to be relatively safe because investors get income back when the market goes down. Tech growth stocks, on the other hand, tend to get beaten up more when the market is weakened.

Another reason why the stock is hurting is because the lockup period recently ended. When a stock goes public, there is a lockup period to prevent every executive from selling shares; this ensures that the price doesn't plummet. In November that lockup ended, which allows long-time employees to finally gain liquidity. This, coupled with the market drop, has created a perfect storm for the stock to drop.

All told, the stock isn't hurting because of the company's fundamentals, but because of bad timing. Therefore, I believe investors should take advantage of the platform Shopify is building and buy shares now.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

Category

1. Investing
2. Tech Stocks

Date
2025/08/24
Date Created
2016/01/27
Author
jaycodon