Why Shopify Inc. Shares Have Fallen by 13% Since Thursday

Description

Since Thursday evening, shares of **Shopify Inc.** (TSX:SH)(NYSE:SHOP) have dropped by more than 13%.

What exactly has caused this fall? And does it mean the shares are now a bargain?

Some bad numbers, but not from Shopify

Interestingly, there's been no significant news from Shopify over this time. The company doesn't even report quarterly results until February 17.

Instead, Shopify's sinking share price is due to the poor outlook from other technology companies, especially **LinkedIn**. The button-up social network reported strong results on Thursday, but had very disappointing guidance for this year. In response, the company's share price fell by 44% the next day.

It wasn't just LinkedIn that faltered. **Tableau Software Inc.**, which provides analytics and business intelligence software solutions, reported slowing growth at about the same time. The stock collapsed by about 50% the next day.

This came at a time when investors were already quite skittish about high-growth tech stocks. As a result, other such companies have seen their share prices fall recently. **Facebook Inc.** is down nearly 10%. **Salesforce.com inc.** has fallen by nearly 20%. Even **Alphabet Inc.** has gotten caught up in the mix.

Of course, Shopify is another fast-growing tech company, so it's understandable that its shares have been sold off as well.

Tremendous value

Of course, LinkedIn and Tableau are very different from a company like Shopify, so there very well may be an opportunity here. And when looking a little closer, the stock starts to look very enticing.

There are a few reasons why. First of all, Shopify's merchants tend to be very loyal. In fact, any attrition is usually cancelled out by growth from remaining customers. Secondly, Shopify is very good at acquiring new merchants, while spending far less than what these merchants are ultimately worth.

To put some numbers on this, each of Shopify's merchants generate over US$1,000 on average. This revenue is very high margin and also keeps growing. Using fairly reasonable assumptions, each merchant is worth US$5,000 to Shopify. And the company is able to add new merchants for less than US$1,000 each. That's not a bad rate of return.

This isn't fairly reflected in the company's stock price. Using the US$5,000 number, Shopify's existing merchants are worth over US$1 billion, while the whole company is valued at just US$1.4 billion. That means you'd be paying a very small price for the growth in merchants.

So the game plan for Shopify is very simple. The company needs to keep offering more and more services to its merchants, which increases both revenue and loyalty. Shopify also needs to keep acquiring more merchants. If the company can succeed in doing this, then there is tremendous upside for the stock, no matter how bad LinkedIn's guidance numbers are.

CATEGORY

1. Investing
2. Tech Stocks

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