



Is Shopify Inc. Ripe for a Correction?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) has skyrocketed a whopping 132% over the last year. The company is one of the best high-flying tech names on the TSX, but it has run up way too far for value investors to even consider. Sure, it's one of the best growth plays out there, and it's got a terrific business model, but even the best stocks in the world experience pullbacks from time to time. Could Shopify be headed back to lower levels? Or is there still room to run for the fast-growing e-commerce king?

What's all the hype about?

Shopify is a software-as-a-service e-commerce platform that makes the lives of digital retailers easier. The company has over 300,000 subscribers, and this number is expected to grow by leaps and bounds over the next few years. The company is growing at a ridiculous rate, and the reviews of the product have been very positive. Shopify is considered one of the more popular e-commerce platforms out there, and this gives the company the competitive edge it needs to grow in such a competitive space.

There are tons of competitors out there looking to steal Shopify's market share, and there really is no moat from preventing them from doing this. Customers don't like getting locked into long-term contracts, so a monthly plan is usually the way to go. There's nothing stopping a customer from leaving Shopify for another platform, and they're free to do so if they're not satisfied.

What keeps customers on board for the long haul? Shopify has a terrific product that is considered one of the best of its kind. The company is firing on all cylinders with its R&D division, so the platform is continuously being made better and faster.

Shopify is very good at innovating, and that's a huge reason why the company is able to grow its subscriber base at such a rapid rate. Shopify doesn't need to lock down its subscribers to long-term deals, because it knows that once a customer tries Shopify, they won't look back.

What about valuation?

Shopify is a fantastic company, but the stock is starting to get expensive. The stock trades at a 320

forward price-to-earnings multiple and a 12.9 price-to-book multiple. The stock could continue to fly higher this year, but there's also a huge possibility that the stock could correct, as everyone has been ridiculously optimistic about it and its growth potential.

As Warren Buffett said, "...be fearful when others are greedy, and greedy when others are fearful." In the case of Shopify, it might be time to start getting fearful. Perfection is pretty much priced into the stock at current levels, so any mixed quarters could send it tumbling. The margin for error is thin, so I would be extremely cautious if you're thinking about picking up shares right now.

Sure, it's one of the best growth plays out there, but I'd wait for a pullback before initiating a position. The market has been flying high lately, but sooner or later the markets will go down again, and when they do, it could be your chance to pick up shares of Shopify at a much better price.

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