



Shopify Inc. Jumped 15% in March: Now What?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) registered its third consecutive monthly gain in March — up 15%; Shopify has now gained 59% through the first three months of 2017 with very little standing in its way of hitting the century mark before summer.

You're not going to find many naysayers among investors, Canadian or American, when it comes to Shopify's stock. It's become a Canadian tech darling, and although I was late to the party (I finally [recommended](#) Shopify in February after [balking](#) at its stock because of valuation concerns), I did manage to make it before last call.

There aren't too many exciting tech stories in Canada, especially of the publicly traded variety, so it's not hard to see why Shopify's success has captured the interest of investors everywhere.

Shopify has got an e-commerce platform that makes a real difference to small businesses, and they always say the best business ideas are those that make or save people money. In this case, Shopify achieves both for its end-user customer.

There's no question that Shopify is an unabashed hit. The problem is, its stock has come so far, so fast that the valuation has spiraled out of control.

To illustrate my point, I'll compare Shopify to the five top-performing tech stocks in 2016 from the S&P 500 information technology sector. I think it helps provide perspective on how expensive SHOP stock really is.

The big tech winners from 2016

Company	2016 Total Return	YTD Total Return	Price-to-Sales Ratio
Shopify	62.1%	59.1%	14.7
F5 Networks, Inc. (NASDAQ:FFIV)	49.3%	-4.4%	4.6
Hewlett Packard Enterprise Co. (NYSE:HPE)	53.8%	4.7%	0.6

Micron Technology, Inc. (NASDAQ:MU)	54.8%	30.6%	2.1
Applied Materials, Inc. (NASDAQ:AMAT)	75.0%	19.9%	3.6
NVIDIA Corporation (NASDAQ:NVDA)	225.3%	-5.5%	9.5

Sources: *Street.com, Morningstar.com*

These five tech stocks performed better than the other 64 constituents of the S&P 500 information technology sector. Of them, Nvidia has the highest P/S ratio of 9.5 — 35% less than Shopify's.

Over the past three years, Nvidia has grown sales and earnings on an annual basis by 18.7% and 55.9%, respectively; meanwhile, Shopify has grown its sales 98.2% annually over the same three-year period, while managing to lose US\$76 million on a cumulative basis, including US\$35.4 million in fiscal 2016.

Shopify continues to scale its business model, and, as such, it likely won't be profitable in the near future, but it clearly is growing sales at an unbelievable rate. Fool.com contributor Rich Duprey recently [discussed](#) the merits of Shopify's business model, noting that more than 377,500 merchants in 175 countries (58% in U.S.) currently use the Shopify e-commerce platform — four times the number of merchants using it back in 2013, long before it went public.

Let's forget profits for a moment; you can pay 15 times sales for a company that's doubling the top line every year, or you can pay almost 10 times sales for one that's doing it every five years.

I view Shopify in much the same way I do **Tesla Inc.** As long as it continues to push the ball down the road and the overall story of growth remains intact, I don't see a problem paying up for its stock.

So, now what?

You buy SHOP stock, put it in a drawer, and pull it out in 2020. If the ball has continued to move down the road and it's making money, I can assure you that you won't be mad at yourself for paying 15 times sales for its stock.

On the contrary, you'll probably wonder why you didn't buy more. Onward and upward.

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