



How High Can Shopify Inc. Go?

Description

It's official. The stock of **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) has skyrocketed into the atmosphere. The stock is now up over 136% over the past year, and it seems that nothing can stop the upward momentum. Shopify is one of the rare success stories coming out of the high-flying tech sector, so many Canadians have been including it in their portfolios because of the growth potential and the sector it's in.

Shopify is an incredible business; it offers a great service that appears to be head and shoulders above its competition in the e-commerce small-business space. There's no question that customers love the service, and I think the R&D will have enough features in the pipeline to allow for both long-term subscriber growth and retention rates.

Shopify has an agreement with **Amazon.com, Inc.** which will allow subscribers to seamlessly integrate with Amazon through the Shopify platform. Merchants usually place their products on Amazon in addition to Shopify anyways, so having seamless integration will just save merchants time, and that will result in higher customer satisfaction.

There's no question that the Shopify is growing ridiculously fast, but I think the business is more predictable than most other high-flying tech companies.

The model is simple. Shopify makes money through the subscription fees it charges its merchants that use its platform. The company doesn't rely on long-term contracts; instead, it continuously looks for ways to improve the product and keep its existing subscriber base happy, so they'll be more likely to stick with the Shopify platform for the long run.

Merchants choose to stick with the platform — they're not forced to — and I think that's a terrific way to do business, both for Shopify and its customers. The cash flows will continue to flow in at what I believe will be a steady and increasing rate, so I think the company has the potential to become a dividend-growth king many years down the road once growth stagnates.

What about the valuation?

Shopify is a fantastic business, and the growth prospects are gigantic, but is the stock a safe play after its huge run-up? The stock currently trades at a 15 price-to-book multiple and a 14.9 price-to-sales multiple. It's possible that the stock is overbought, and if there's any form of negative news released, the stock could be headed for a small correction.

Although Shopify is one of the best growth plays on the TSX, I would stick on the sidelines because there's no margin of safety at current levels. It's also quite possible that the stock will continue to soar, and you may not get a better price down the road, so I'd buy a small chunk now with cash set aside with the intention of buying more on any signs of weakness.

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