



Shopify Inc.: Canada's Next Big Tech Company?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) came to market with its initial public offering on May 21, 2015, at \$17 per share. Since then, shares have been on an absolute tear, up more than 330% over the past two years. Make no mistake about it, Shopify has been one of the best performing stocks listed on the TSX since its debut. Canadians haven't seen a technology company perform this well since **BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY) over a decade ago. The question is, how much higher can Shopify shares go?

Shopify already holds a market leadership position in the large and rapidly developing e-commerce space for small- and medium-sized businesses (SMBs). Entrepreneurs and small business owners are increasingly moving away from traditional brick-and-mortar outlets to online retail. Shopify helps SMBs make this transition easier by creating and managing the virtual shopping experience from storefront to shopping cart and all the way to payment processing and fulfillment.

The company has done an exemplary job of exploiting the transformation taking place in the e-commerce market with over 377,500 active Shopify stores in operation today generating over \$29 billion worth of sales to date. Shopify has been careful to take its share of the pie along the way with sales up more than 1,500% over the past five years. Investors have taken notice; shares are up 70% year to date versus the TSX's gain of a meagre 1.8% over the same period.

However, as Shopify continues to penetrate the existing SMB e-commerce market, it will be increasingly difficult to sustain the current pace. While sales were up an impressive 89% in 2016, analysts are calling for slower growth going forward with the street consensus coming in at 54% of top-line growth for 2017 with the pace falling to a little under 37% for 2018.

While experienced investors will caution you when the forecasts are calling for slower growth ahead, if Shopify can sustain the currently forecasted pace, there may be little to worry about. The transformation currently taking place in e-commerce is far from a temporary fad. Should Shopify be able to defend its leadership position and take advantage of economies of scale, there may be little in the way to stop this company's growth trajectory.

Still, others may warn about the implied valuation Shopify gets in the market at today's prices. While a 16 times price-to-sales metric and a 385 times price-to-earnings ratio are far from ideal, these measures fail to account for where the company will be in five or even 10 years. Those debating an investment in Shopify shares may want to consider that BlackBerry shares carried similar ratios in 2004 before going on an extended bull run.

Should you buy?

Most investors following a growth strategy will be willing to tag along for the ride where there is a good chance the company will be far bigger in the future than it is today. Given an established leadership position within the rapidly growing e-commerce market and a growth trajectory in plain view that is vastly superior to the broader market, those who are willing to invest in Shopify today may still be talking about it for many years to come.

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