



## Shopify Inc. Knocks 1 Out of the Ballpark: Time to Buy?

### Description

**Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) has been one of the hottest stocks trading on the TSX of late. The stock has soared over 190% over the past year, and the upward momentum continues to drive the stock to record highs. Many small- and medium-sized businesses are going to be transitioning to an e-commerce platform for the first time, and Shopify is at the forefront of this growth opportunity.

Shopify uses a subscription-based model for its software-as-a-service platform, which has been receiving rave reviews from its subscribers. Simply put, Shopify doesn't lock its customers down to long-term contracts, it continuously improves its platform to drive customer satisfaction, so customers stay by choice.

Unlike most other tech stocks, Shopify's subscription-based model is easier to predict. As long as merchants are still in business, they'll need an e-commerce platform, and Shopify is arguably head and shoulders above its competition. By allowing merchants to have the ability to cancel at any time, a customer loyalty is created.

The R&D division at Shopify is always being pushed to think ahead of its competition. If Shopify can continue to innovate, I believe the customer retention will stay high, and the company will have a stable stream of cash flow that will grow in the long run.

One could argue that Shopify's cash flow stream is as stable as a telecom's, but it's hard to tell this early in the game. There is definitely potential for Shopify to become a dividend-growth king many years down the road, but until then it's full speed ahead with growth.

Shopify recently reported very impressive Q1 2017 earnings, which caused the stock to soar by 7.42%. The company beat on the top and bottom line and raised its full-year revenue forecast, as more merchants piled into Shopify's platform.

Quarterly revenue increased by a whopping 75%, and the full-year forecast for revenue was increased to the US\$615-630 million range — up from its previous forecast range of US\$580-600 million. Revenue from the subscription business increased by about 60% to US\$62.1 million.

Despite the impressive quarterly results, Shopify is still not profitable. The company reported a smaller than expected EPS of  $-\$0.04$ , which was considerably lower than analyst expectations of  $-\$0.10$ . The loss is definitely shrinking, and Shopify is gaining a huge amount of market share, so there's no reason to worry about losses at this point.

Shopify will gradually become profitable as time progresses, but for now, the company needs to go all-in with growth to further solidify its dominant position in the e-commerce market.

Should you pick up shares after the rally?

The results were impressive, and I believe the rally that followed the earnings results are warranted, but keep in mind that the stock isn't cheap right now. You're paying a premium for the incredible growth prospects, and investors are expecting nothing short of perfection from here. Thus, I believe the stock is vulnerable to headline risk.

I think Shopify is a fantastic business, and if you hold for the long-term, you'll do very well. But don't panic if negative news sends this stock plunging because it has had an incredible run. I'd buy a small chunk now and more on any dips that may happen over the next year.

Stay smart. Stay hungry. Stay Foolish.

## CATEGORY

1. Investing

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