



Shopify Inc.: Time to Take Profits off the Table?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) has been one of the hottest performers on the TSX over the past year, and many investors are wondering if the stock is still a safe buy after its incredible run. Shopify is a fantastic business with a predictable subscription-based model with ample room to grow, but is it really like buying the next Canadian **Amazon.com, Inc.**? Or have speculative investors caused the stock to run ahead of itself?

There's no question that e-commerce is taking over the retail industry, and there's going to be a ton of room for e-commerce giants like Shopify to run over the next decade. Shopify is one of the best e-commerce platforms out there, and merchants love it.

Merchants aren't forced to stick with the platform under long-term contracts; they choose to renew monthly subscriptions because the platform offers features that merchants love. The value add-on services cater to many customers, and the platform is continuously evolving into an even better platform that's a step ahead of the competition.

Monthly recurring revenue for Shopify Plus, the enhanced service and support platform, is growing at an annual rate of about 150%. Ross MacMillan, an analyst at RBC Capital Markets, stated that Shopify Plus only accounts for approximately 17% of the company's total monthly recurring revenue. MacMillan thinks that average revenue per user could see additional material gains as Shopify continues to add new features to its platform.

There are many add-on services at the merchant's disposal right now, and we're likely to see more of these going forward. Each merchant is unique, after all, so the new services stand to offer a huge amount of value for a number of existing users.

Many pundits believe that Shopify is still in the early stages of its growth cycle, but some think the stock has run ahead of reality. Several firms recently downgraded Shopify, as some of the existing price targets imply a considerable amount of downside from current levels.

I believe an investment in Shopify right now would have a considerable amount of headline risk associated with it. Nothing but good news is already factored in to the stock price right now, and the

stock could face a mild correction if any news or earnings results that are less than perfect are released.

I still think Shopify is a fantastic business that is in the early stages of its growth cycle, but the valuation has gotten out of control, and there's a degree of speculation involved with buying the stock right now. I would advise caution if you're thinking about initiating a position around the \$120 levels. If the stock sees merchant growth slow over the next year, it's possible that we could see the stock pull back to more reasonable valuations.

Although I'm a big fan of the growth prospects, I'm waiting on the sidelines because I'd rather miss out than risk being late to the party.

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