



Better Buy: PayPal Holdings vs Shopify

Description

This article originally appeared on [Fool.com](https://www.fool.com)

Less than 10% of retail sales in the U.S. take place online, and the worldwide retail market is estimated to be well over \$20 trillion. These numbers spell big opportunity for top e-commerce companies like **PayPal Holdings** ([NASDAQ:PYPL](https://www.nasdaq.com/markets/stocks/tickers/PYPL)) and **Shopify** ([TSX:SHOP](https://www.tsx.com/stocks/tickers/SHOP)) ([NYSE:SHOP](https://www.nyse.com/quote/nyse:shop)).

We'll review where both stand today to determine which one is the better buy for investors looking for exposure in the growing field of e-commerce.

The case for PayPal

PayPal is in business to democratize basic money management services and it has executed very well on its strategy to do so. In 2016, the first full year since PayPal separated from former owner **eBay**, revenue grew 17% to \$10.8 billion based on \$354 billion of total payment volume processed on its platform.

The company followed the fourth quarter earnings report of 2016 with another [stellar quarter](#). If you have followed PayPal for a while, you have probably grown numb to such consistent, high-growth rates in revenue year after year.

The payment provider has experienced strong momentum from its new [One Touch feature](#), the most adopted product in PayPal's history with 53 million customers opting in through the first quarter.

Partnerships among several credit card companies, banks, and technology companies, including **Alphabet** and **Facebook** have also played a key role in PayPal's momentum lately. This is part of PayPal's [strategy](#) to expand its brand ubiquity and offer customers more choice in how they pay, which should help continue to grow customer accounts beyond the current 203 million level.

The addition of One Touch and new partnerships helped PayPal add 6 million new accounts in the first quarter of 2017, an increase of 35% over the 4.5 million new accounts added in the year ago quarter. This is the largest increase in quarterly new accounts in three years.

Management expects revenue to grow 17% to 19% on a currency neutral basis in 2017, consistent with their expectation to grow revenue 16% to 17% per year through 2019. Earnings per share for 2017 is expected to be in the range \$1.74 to \$1.79, an increase of 17% over 2016.

The case for Shopify

Shopify's mission is to essentially democratize commerce for businesses of all sizes, offering affordable software for entrepreneurs to run their organizations across online and mobile storefronts, as well as physical store locations. Most merchants are on subscription plans that cost less than \$50 per month. In total, Shopify has 377,500 merchants using its platform from 175 countries, with 58% of those merchants in the U.S.

Shopify generates revenue from subscription plans for its software platform and merchant solutions, which include payment processing fees. The company also generates revenue from Shopify Shipping, allowing merchants to buy and print shipping labels and track orders within the Shopify platform. There's also Shopify Capital, which provides access to funds for working capital needs, like inventory, for eligible merchants to grow their business.

Where PayPal is interested in growing customer accounts, Shopify is focused on growing its base of merchants. Part of Shopify's value proposition is that its interest is perfectly aligned with the merchant: the more the merchant sells, the more revenue Shopify generates from processing fees, subscription upgrades, and other services it offers.

Clearly, merchants are finding Shopify's commerce solutions valuable, since revenue grew 89% to \$389 million in 2016. The potential dilemma for investors with low risk tolerance is that Shopify hasn't proven it can earn a profit, with losses swelling from \$18.8 million in 2015 to \$35 million in 2016.

Which is the better buy?

Although I like investing in small, upstart businesses with big market opportunities like Shopify, I tend to shy away from businesses that haven't demonstrated a record of generating a profit. Therefore, I like PayPal as the better investment right now, especially since Shopify's stock has climbed about 200% over the last year while not showing improvement on the bottom line.

CATEGORY

1. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:PYPL (PayPal Holdings Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)

Category

- 1. Tech Stocks

Date

2025/09/20

Date Created

2017/05/25

Author

motley-fool-staff

default watermark

default watermark