



Shopify Inc.: How Much Upside Remains?

Description

It has been an exceptional year for **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)). Year to date, the stock has appreciated by 128%, and, if we stretch back 12 full months, the stock is up 244%. Things are going so well for Shopify, investors didn't even blink an eye when the company issued 6.3 million new shares to raise \$561.2 million. Normally, a dilution event results in a pullback, but it hardly registered; the stock continued to push new highs.

Naturally, investors are wondering how much more upside remains and if they should consider buying.

I'm bullish on Shopify for a few reasons. The big one has to do with its underlying business model and how it creates an ecosystem for online merchants that results in stickiness. This model makes it harder for merchants to leave, allowing Shopify to comfortably grow its base revenue.

Here's how that works ... Shopify charges a monthly fee for the merchant to have an easy-to-run online store. This is the software-as-a-service (SaaS) model. The fee is anywhere from US\$29 to US\$299 per month, with a multitude of services added for the larger accounts. At US\$29 a month, a merchant need only spend US\$348 for the year to have an online store.

But once the member is in, Shopify can continue generating revenue through products that see growth when the gross merchandise volume (amount sold by its clients) increases. The company has payment processing products, shipping label functionality, and Shopify Capital, which acts a short-term money lender to help merchants acquire more inventory.

All of this creates a revenue scenario that really can only go one way: up.

In total, its Q1 2017 revenue was \$127.4 million, a 75% improvement over Q1 2016. On the Subscription Solutions side, revenue was up 60% to \$62.1 million. And on the Merchant Solutions side (shipping, payment processing, etc.), revenue increased by 92% to \$65.3 million, crossing the subscription business.

One reason I believe Shopify is increasing so much in price is because **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) is going up so much. Amazon is leading the charge on e-commerce, and I believe

this is giving investors optimism for the overall online ecosystem. With Amazon crossing US\$1,000 a share, investor excitement should only heat up. And it helps that Shopify is Amazon's preferred migration partner for store owners.

But another reason things are going so well for Shopify is that it has only served the tip of its addressable market. Its current core geographies represent 10 million potential customers with the potential to generate \$10 billion in yearly revenue. The global market is 46 million customers that could bring in \$57 billion in yearly revenue.

And that's what you get when you invest in Shopify. It is an incredibly sticky business that scales with its clients. As shop owners do better, Shopify does better. And as it expands, investors will see lucrative returns on investment. Will it hit \$200 by year end? Some are predicting it. Whether it does or doesn't, the long term for Shopify is very bright. In my eyes, this might even be one of Canada's top tech stocks, making it a must-have for your portfolio.

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Date

2025/08/02

Date Created

2017/06/06

Author

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