Is Shopify Inc. a Buy?

Description

Nowadays, more companies are looking to increase their presence online, since online shopping is becoming the new way to shop. They want to reach that goal without incurring too many costs, and they want to have a strong visibility to reach as many customers as possible.

You surely know the website **eBay**, but did you know that there is an alternative to it? Indeed, you can have your own e-commerce site with **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP). This company provides cloud-based, multi-channel commerce platform designed for small- and medium-sized businesses. But is it a good idea to buy Shopify stock? Let's find out.

Strong returns and first-quarter results

If you look at Shopify's financial statements, you'll see that its earnings are negative. That is normal, since it's a start-up. What you should look at is the capability of the company to turn revenue into profit in the future, and if its business model is sustainable. This kind of stock is designed for growth investors, who are looking for potential high growth and are ready to pay a high price for a stock if they believe they will be rewarded for it.

Up until now, people who have invested in Shopify surely don't regret it. Indeed, the stock return has been 128.60% since the beginning of 2017 and 237.17% over one year.

On May 2, 2017, Shopify's reported strong first-quarter results. The company earned revenues of US$127.4 million for the quarter ending March 31, 2017, a 75% increase from the same period a year ago.

Almost half of this revenue came from the firm's subscription solutions, driven by a 62% increase in monthly recurring revenue (MRR), a key metric for software-as-a-service companies. At the end of its first quarter, Shopify's MRR was US$20.7 million, which the firm attributes to a record number of merchants added to the platform in this quarter.

Gross merchandise volume, or the total product being sold across Shopify's platforms, was US$4.8 billion, an increase of 81% year over year.

Despite its strong revenue growth, Shopify is still going down further into the red, reporting a net loss of US$13.6 million compared with US$8.9 million a year earlier. Nonetheless, the company expects revenues as high as $630 million for the full year 2017.

At its annual San Francisco meeting for partners and developers, the firm announced a number of new products and channels, including Shopify Point-of-Sale Card Reader and Shopify Pay.

According to CEO Tobi Lütke, the promise of Shopify is being realized. The firm is a leader in the retail sector — no longer just a participant in this market. More than 400,000 merchants now use Shopify's e-commerce products compared to 175,000 two years ago, when the company first sold shares to the public.

Certainly, the company is becoming a significant force in online retailing. After eight straight quarters of solid performance as a public firm, it's also building a reputation for doing what it said it would do and even more.

With its promising outlook, Shopify stock looks like a buy for growth investors. However, you have to be able to tolerate a great volatility with this kind of stock. But, as you may know, higher risk generally means a higher potential return. Without a doubt, Shopify has great potential.

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