



Scarcity vs. Value: Shopify Inc.

Description

Canadian tech darling **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) has been on an incredible run of late. The company has seen its stock price more than double year to date and increase approximately 225% on a trailing 12-month basis.

Shopify's ability to grow revenues at an incredible pace and continue to chip away at market share has caused growth investors to continue to jump in. The stock has continued to climb higher as the company's growth continues to accelerate each quarter.

What is even more impressive about Shopify's business model is the ability of the company to do so without debt. To date, Shopify has used a series of equity offerings to finance its growth model, closing its most recent issuance on May 24 for more than US\$575 million — a decent chunk of change.

As the company's stock price continues to climb, additional equity issuances become more attractive for Shopify, as the tech darling will be able to raise the same amount of money while issuing fewer shares, diluting existing shareholders at a lower rate. Dilution aside, Shopify's ability to continue to sustain and increase its rate of growth, without debt, is one reason investors have been jumping on board since the initial public offering in mid-2015.

Scarcity

It is important for investors to understand that few growth opportunities such as Shopify currently exist on the Toronto Stock Exchange. As such, another critical factor for Shopify is its scarcity relative to other publicly traded companies in Canada.

Shopify is (1) a unique business; (2) in the Canadian tech space; (3) with an abnormally high growth rate; and (4) on a path to becoming an industry leader — something very rare among Canadian issues.

This scarcity effect (with some analysts calling Shopify Canada's **Amazon.com, Inc.**) has also driven Shopify's stock higher. This is something investors should consider important, as Shopify's stock is priced not only relative to its own performance, but rather to the performance of the tech industry in Canada as well.

Bottom line

From the standpoint of an investor looking for a Canadian growth stock in the tech sector, not many options exist. This fundamental scarcity factor relating to good Canadian tech issues has resulted in a buying frenzy.

This buying frenzy has allowed Shopify to continue to raise money via secondary issuances at higher prices, which is a great thing for the growth company and investors who managed to get in early. For new investors, at current price levels, I would remain cautious with Shopify, at least in the short term. While I do believe Shopify will turn out to be a great long-term play, picking a good entry point with this stock is something I would focus on. Buying on weakness moving forward is likely the best to play this.

Stay Foolish, my friends.

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