



Shopify Inc.: Could a Larger Dip Be on the Horizon?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) is one of the hottest tech stocks trading on the TSX right now. The stock has had an incredible upward run over the past year, and investors are wondering if the recent pullback is a buying opportunity or a signal that the positive momentum may be coming to a halt.

Shopify is a fantastic e-commerce platform that small- and medium-sized business owners around the world love to use. The company has an impressive global penetration with over 400,000 merchants across over 175 countries and a solid growth strategy that's making Shopify a dominant force in the e-commerce industry.

Strong subscriber growth momentum

The management team is always finding new ways to make the lives of its merchants easier. It's not a mystery as to why the company doesn't require its merchants to sign long-term contracts. The R&D team is innovating, and such innovation initiatives are likely to drive retention rates and attract new subscribers in the years to come.

Shopify is still in the early stages of growth and isn't showing any signs of slowing down. The company reported Q1 revenue growth of \$127.4 million, which is up 75% year over year. Subscriber growth is also off the charts with 50% net new merchants in the last fiscal year.

Opportunity to increase the average revenue per user

It's not just subscriber growth that will propel Shopify higher over the long run. The company is also set to reap the rewards of add-on services which may add huge value for merchants as well as shareholders. These are the kinds of services that cater towards a smaller niche audience that the average merchant may not be interested in. Such add-on services and features would increase the average revenue per user and make Shopify a cash flow-generating machine.

Shopify is a great business, but is it speculative to own at the \$120 level?

There's no question that the easy profits have already been made. The general public is extremely optimistic, and it's quite possible that investors have unrealistic expectations at this point. Shopify is likely to continue to report great growth numbers, but the company comes up short of potentially unrealistic analyst expectations. Shopify could get hammered hard as short-term thinkers and momentum traders dump the stock.

The general public appears to be overly bullish right now with President Trump's pro-business promises. We've seen many great companies get hit following solid earnings reports because analyst expectations were just too unrealistic. Shopify is an extraordinary growth company, but The Street already expects top-notch numbers, and if the next quarter isn't perfect, expect the stock to plunge.

Prudent growth investors would be wise to load up on shares following such a plunge, but, like with most momentum stocks, such a plunge may never happen if the company continues to knock one out of the ballpark on a consistent basis.

It's possible that Shopify will continue to soar, so if you're keen on getting a piece of this growth story, then it makes a lot of sense to buy small chunks of the stock incrementally to reduce the risks associated with buying shares of a stock which may have surged ahead of reality.

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Date

2025/07/29

Date Created

2017/06/20

Author

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