



Does Shopify Inc. Have Enough Moat?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) is one of the newest entrants to the e-commerce space. It allows someone to develop a website that can easily sell products. There are many competitors in this space that are very comparable, including names like **GoDaddy Inc.** and BigCommerce. The offerings with many of these online companies can vary, but in many cases you can achieve comparable results, depending on what you need.

If someone is just looking to sell a product online, surely **Amazon.com, Inc.** or **eBay Inc.** would suffice. If it's building a website that needs e-commerce, then GoDaddy and Shopify are two well-known options. But the problem is, there is nothing proprietary that either of these companies can claim. There is nothing to stop one of the big tech giants like **Apple Inc.** or **Alphabet Inc.** to one day decide to take over this space.

If that scenario were to happen, then many of the aforementioned companies would see sales sink overnight. Without a strong moat, there is nothing to stop a company from copying another's features or key products. That is the risk of Shopify's business model; it can be copied and potentially made more efficient and more affordable by a company with larger resources.

Without a discernible moat, the company's long-term prospects are questionable, especially with low barriers to entry in the tech space. Shopify needs to look no further than another Canadian company **BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY) to see the challenges that arise when stronger competitors steal market share. BlackBerry was forced to revamp its business model when it couldn't compete head on for cell phone sales (although it has started selling phones again to a lesser extent).

BlackBerry was able to focus on software and services and remove itself from a very competitive environment that it could not succeed in. BlackBerry is still not without its struggles, but it is certainly in a better position than it was before. Shopify could certainly change its offerings and operations, but that would mean innovating and finding new products it could offer to customers. The tech industry is constantly innovating, and companies that can't keep up often fade into irrelevance.

Shopify has not been around long enough to show that it can keep up with changing tastes and

expectations of consumers, but it would also be premature to say that it cannot. For those reasons, there should be more risk and more questions about the stock. Instead, the stock shows lots of confidence with an annual return of over 190%. The book value of the stock is only \$4.50, meaning shares are trading 26 times that amount.

The tech industry is no stranger to large multiples, but in this case, I think it is unfounded. For a company to be trading at these multiples and yielding these types of returns, I would expect a company that has exceptional capabilities or has come up with something extremely unique.

I'm not convinced Shopify has proven to be innovative enough or continue at a pace where the valuation is justifiable. The company has seen increases in sales, but profits have not followed.

Without a strong moat or an ability to generate one through innovative personnel and resources, I think the stock is destined for a correction.

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