



## Shopify Inc.: Is This Explosive Growth Stock Still a Buy?

### Description

**Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) beat analysts' revenue forecast on August 1 and added a record number of small-business clients.

Total revenue in the second quarter was US\$151.7 million — a 75% increase from the comparable quarter in 2016, while gross profit grew 83% to US\$86.8 million for the same period a year ago.

This stellar performance, which surpassed company's own expectations, pushed its shares higher more than 9% the same day, bringing Shopify shares closer to the record high of \$135.42.

After the eye-popping second-quarter results, the biggest questions in investors mind are these: Is Shopify still a buy after rising 117% this year? And will the company continue to produce these explosive growth numbers?

Let's first try to understand what's behind this excitement. Here are a few facts which explain the Shopify's success story:

- Shopify now powers 500,000 businesses in 175 countries. This number is 67% higher than the same period last year;
- 74% annual growth of merchants on the Shopify platform since 2012;
- Major brands like **Budweiser** and **Tesla Inc.** now use the Shopify platform.

### Global growth

Before the second-quarter's surprise earnings, some leading investment banks, including **Goldman Sachs Group Inc.**, had downgraded Shopify from "Buy" to "Neutral" on concerns that the company is increasingly dependent on newer non-core products and markets for its future growth. According to Goldman Sachs, some downside risks to Shopify stock include a leveling off of growth from newer products.

But the second-quarter results blew away all these concerns, showing that the company's business model remains very strong, and it's got all the ingredients to become a global e-commerce powerhouse.

Merchant growth in the second quarter, for example, was global with a 56% increase in North America, 82% in Asia, 168% increase in South America, and 70% increase in Africa.

### What's next?

Shopify is not making a profit yet. Being in the super-growth cycle, it's investing its cash back into the business. In the second quarter, the company's net loss widened to US\$14 million, or US\$0.15 per share, from US\$8.4 million, or US\$0.10 per share, in the same period a year ago.

But what makes me really excited about Shopify is the stickiness of its business model. Once you've set up your e-commerce store on Shopify's platform, it would be tough to move to another vendor. Shopify keeps small-business owners happy by providing hassle-free back-office support.

There's no doubt that, trading at \$127 a share, Shopify is an expensive stock. But I don't think this great technology company will stop here as more retail spending shifts online from physical stores, and as the company adds new revenue-generating businesses.

If you understand the growth cycle of a technology company and believe in the power of Shopify's platform, I don't think you've missed the boat!

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