Is Shopify Inc. Too Risky to Own at $120?

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) is arguably one of the best growth plays on the TSX, but after more than doubling over the past year, hitting a ceiling of resistance around $130, does it make any sense to add shares to your portfolio? Or is it time to take profits off the table and run?

Despite still not being profitable, many investors are flocking to the e-commerce giant because of its ridiculously strong subscriber growth momentum, which looks as though it can't be stopped. Sooner or later, the company will chalk up a profit, and once it does, earnings could surge into the atmosphere.

Why do subscriptions keep soaring?

The management team keeps making the lives of its current users easier. The R&D team continues to innovate, and that's a major reason why merchants choose to stick with the Shopify platform, even though they're free to ditch it and opt for a competitor's platform. Shopify doesn't need to lock in its subscribers in for the long term; the continuously improving product is the durable competitive advantage, which is how it should be for a fast-growing tech company.

Shopify doesn't just provide an intuitive platform for merchants to sell their items online; it also offers a wide range of tools that were designed to help its merchants' businesses thrive.

It's clear that subscribers love Shopify, and as the company continues to add new features, more small- and medium-sized business owners will be signing up. Over half a million businesses use Shopify, and these numbers are rising at a ridiculous rate.

What about the risks?

Valuation has become a major concern of late. Shares of Shopify may have crossed the line between investment and speculation. Although the growth prospects are very real, it appears that shares have run ahead of reality, and that means the stock is at risk of a correction if anything short of exceptional is delivered in a future quarterly report.

Could competition be an issue?

Shopify's month-to-month pricing shows the company's incredible ability to please its customers, but it's really a doubled-edged sword. Since Shopify doesn't lock down a majority of its subscribers to long-term contracts, in theory, subscribers could suddenly start leaving if another innovative e-commerce platform suddenly became available.

Sure, Shopify has received rave reviews and is arguably the best platform available to small- and medium-sized businesses at this point in time, but competition is picking up as more small businesses opt to go digital. Shopify's moat is its ability to innovate and deliver a service that's head and shoulders above its competition. This moat is definitely wide now, especially after the **Amazon.com, Inc.** partnership, but investors should take note of what the competition is up to since the industry changes rapidly.

Bottom line

Shopify is still in the very early stages of its growth cycle, but the value to be had at current levels is suspect. There's going to be a lot of volatility in the coming years, but if you're comfortable with that, then you may want to buy shares on major dips.

Shares could continue to rally from here; however, as a prudent investor, I'd much rather wait for a margin of safety than bet on a high flyer after an impressive run. If you already own shares, it certainly can't hurt to take some profits off the table.

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