



Can Shopify Inc. Reach \$150?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) is flying high this year with its stock price rising over 139% year to date and 153% in the past 12 months. The share price is currently approaching \$140, and if it breaks through that barrier, then \$150 might just be a matter of time.

I will look at the company's performance and determine if the stock is poised to reach \$150, and if so, how soon it might be able to reach that price.

Financial performance

In its most recent quarter, the company posted revenues of \$151 million, which were up over 75% from the prior year as the stock continues to show incredible sales growth. In just three years, the company's annual revenue has nearly quadrupled as the stock went from a \$50 million company to one that finished with just under \$400 million in sales for its 2016 fiscal year. The company has failed to turn a profit and, in four years, has accumulated losses of over \$81 million, or about 10% of its sales during that time.

However, as **Amazon.com, Inc.** has showed us, profits in the tech sector are secondary when you can show investors incredible sales growth.

Current valuation

Value investors should look elsewhere, as Shopify is not a stock that you will find trading at any sort of discount or low multiple anytime soon. In its most recent quarter, Shopify's book value computes at under \$10 per share, meaning the stock currently trades at almost 14 times that value. By comparison, Amazon currently trades at a book value multiple of about 20.

Price to sales is another multiple we can look at to derive value, and here Shopify trades at over 26 times its sales for the past four quarters. Amazon's market capitalization is just three times its sales for the past year, indicating a much smaller premium for its sales than Shopify. **Netflix, Inc.** is another high-priced stock, and it too trades at a lower sales premium than Shopify with a price-to-sales ratio of just seven.

By looking at highly priced stocks like Netflix and Amazon, we can see that Shopify might be trading at a big premium already.

Technical analysis

At the end of August, the stock traded not only at its 52-week high, but at its all-time high as well. Last month, the stock price soared over 20% as the company recorded a positive quarter and, since then, the share price has been on a climb.

The Relative Strength Index (RSI) is a technical indicator that helps to show if a stock is overbought or oversold based on average gains and losses over a period of time. At its current price, Shopify's RSI level is approaching an overbought condition, and the last time it did this, the stock had a correction downward.

Bottom line

When a stock is expensive, even to comparable NASDAQ stocks like Amazon and Netflix, you know the valuation is high. In addition, with indicators suggesting the stock might be overbought, I don't think the share price will reach \$150 this year, unless it has a very strong quarter, where hype will propel its price even further. In the short term, I could see Shopify's share price hitting \$140, but I would be surprised if it can stay there.

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