



Is Shopify Inc. Canada's Version of Amazon.com, Inc.?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) continues to reach new highs. The company recently hit just under \$150 per share on September 13, and the stock has provided investors with year-to-date returns of over 150%. Every time it looks like the stock may have peaked, it finds more upward momentum, and the share price continues to climb. Shopify is a star on the TSX at a time when the market has just been abysmal.

Shopify reminds me of **Amazon.com, Inc.** ([NASDAQ:AMZN](#)), as it continues to ascend in share price amid significant hype. Shopify is much smaller than Amazon, but the tech stocks have some undeniable similarities: both stocks have seen strong sales growth, have not produced strong profits (Shopify continues to be in the red), trade at high multiples, and have seen share prices continue to soar as investors line up to jump aboard the hype.

Valuation multiples are of little use

These stocks are not for value investors, as the stocks are trading based on future expectations and the ability of the companies to continue to innovate and grow. This makes it difficult to assess how high share prices might go, because it all depends on individual models and how much growth investors expect in the future, which can be very difficult to predict with any accuracy in a high-growth environment.

Shopify has a negative earnings per share, and doesn't even have a price-to-earnings multiple, but it trades at 12 times its book value, while Amazon is at over 20. If we were to look at multiples, we would quickly assess that both stocks are too expensive, and that the share prices are due for major corrections. The problem with that approach is that you could very well miss out on potential gains, since these multiples have done little in deterring investors.

How can you gauge hype?

One way you can put a numerical figure on a company's popularity is how often it is searched for online. Using Google Trends, I can see that Shopify searches have increased by 40% from a year ago. By comparison, Amazon has only seen its searches rise by about 20%. Shopify has seen its popularity

online rise at twice the pace that Amazon has, and that could explain why Shopify's 168% returns in the past year have eclipsed Amazon's returns of just 30%. Clearly, the relationship between search growth and price increases is not linear, but it does give an indication of whether a stock's popularity is on the rise or not.

Should you buy Shopify today?

Shopify is the type of investment where your brain and your heart just can't agree. From a logical point of view, the stock continues to defy sound investing principles as people are buying into the company's future growth and willing to ignore the potential risks involved. After all, with a lack of significant moat, there is no stopping a company like Amazon from entering the space and taking over. In the short term, I can see the potential returns from investing in Shopify, but in the long term, there are too many dangers that could jeopardize future growth for me to feel comfortable with the investment.

CATEGORY

1. Investing
2. Tech Stocks

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1. Editor's Choice

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