Shopify Inc.: 3 Reasons Why the Stock Could Fly Much Higher

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) is arguably the hottest stock in Canada with its incredible e-commerce platform, which subscribers are flocking to. The company has seen year-over-year growth rates north of ~70% and is looking to further solidify its position in the small- to medium-sized business (SMB) e-commerce space.

Shares of SHOP have soared ~170% over the past year, which has many value-conscious investors wondering if it's still safe to take a bet on what many pundits believe is Canada's answer to **Amazon.com, Inc.** (NASDAQ:AMZN).

There are many reasons why Shopify can continue to fly higher over the next few years; however, it would be wise to build your position gradually over time as a short-term correction is also a possibility if the company can't jump the bar that it has set so ridiculously high for itself.

Here are three reasons why Shopify will probably continue to surge over the next few years.

Shopify has only scratched the surface of a massive market

At the time of writing, Shopify has over 500,000 merchants across 175 countries. This may seem impressive, but it's barely scratching the surface of the global SMB e-commerce market. Worldwide e-commerce sales are expected to surpass the $4 trillion mark in 2020, according to an estimate by the research firm eMarketer.

Although year-over-year e-commerce growth has been slowing over the last few years, the red-hot e-commerce market is still enjoying growth in the high double digits. Going forward, SMB sales are expected to contribute to an even larger part of the global e-commerce sales as SMB stores become cheaper and easier to create.

A strong R&D team is Shopify's durable competitive advantage

Subscribers really love Shopify because it offers a great product that truly stands out from its peers. The company continues to invest in initiatives to make the lives of its subscribers easier.

Remember, running a small business is a daunting task, as the probability of failure is quite high in the first few years of operations. Shopify isn't just trying to win a subscription renewal from its subscribers; it wants to do everything it can to help its subscribers grow and succeed. That means investing in niche add-ons or any other additional products that'll help drive merchant productivity and efficiency.

Shopify's moat is too wide to penetrate, even for Amazon

Amazon is a major disruptor in the retail space, but it just couldn't keep up in the SMB niche market with the likes of Shopify. Amazon's competing platform, Webstore, was bleeding customers, and the extra investment to compete with the likes of Shopify probably wasn't worth the additional reward.

The moat that Shopify built was simply too wide, so Amazon decided to throw in the towel with Webstore and partner with Shopify instead. In a way, it was a huge victory for Shopify against a gigantic disruptor which ultimately got a taste of its own medicine.

Bottom line

Shopify may seem ridiculously overvalued, but it's important to remember that such a high-flyer will probably never reach a level where it's at an "attractive valuation" in the eyes of value investors. Sure, investing in a company that isn't making a profit wouldn't exactly be a move Warren Buffett would make, but you have to remember that he missed out on many opportunities, including Amazon, by shunning high-flying tech stocks.

If you want a piece of Shopify's next-level returns without taking on too much additional risk, you may want to gradually build your position by buying small chunks over time.

Stay smart. Stay hungry. Stay Foolish.

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