



Is Shopify Inc. Headed for \$200?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) has had a tumultuous couple of months. In September, the stock had reached \$150, and it looked like there was nothing stopping it from going further — until the company received some [questionable criticism](#) about its business model and allegations that it was nothing more than a scheme.

The stock eventually rebounded, only to fall again when investors were unimpressed with the company's response to the allegations.

However, since November the share price is back up 13%, and at over \$144 as of the close of Monday, it's well on its way back to \$150, [as expected](#). Assuming that the stock will not fall victim to any surprise developments, we can expect that the share price will pick up where it left off.

How far can Shopify go, and can it hit \$200?

Why fundamentals don't matter for hype stocks

Value investors looking to justify the stock's price will be at a loss. Shopify has failed to turn profits, despite incredible growth. The company's top line rose 675% in just three years, and its most recent quarter sales were up more than 72%.

In high-growth industries like technology and cannabis, we've seen investors get into a frenzy over the sales that the companies have achieved while ignoring other components of the income statement.

With no earnings and a price-to-book ratio of over 14, fundamentals have had little sway in keeping this stock from soaring.

What the technical indicators are saying

Since fundamentals are of no help, technical analysis might offer a bit more of a hint as to the stock's direction. The Relative Strength Index (RSI), which looks at average gains and average losses of a stock to indicate if shares are oversold, has been showing momentum start to pick up for Shopify's

stock.

An RSI level of 70 indicates that a stock is overbought, and Shopify's stock, as of the close of Monday, was just under 67. This suggests to me that the stock may start to slow down as it approaches \$150. However, it's likely that the share price will continue to pick up steam again, especially if the company can continue its incredible sales growth.

It might be too optimistic to expect to see the share price reach \$200 before the end of this year, but that certainly seems within reach for 2018 when you consider that year to date the stock price has increased 150%.

Should you buy Shopify?

I've never been a fan of its sky-high valuations, but Shopify's incredible sales growth shows no signs of slowing down, and that means its stock likely won't either. Over the long term, it's not a stock I would suggest investing in given the poor financials, but in the short term, there certainly is plenty of opportunity for investors to turn a profit.

The company would need a return of less than 40% to hit \$200 within a year, which, at this point, seems mortal for a stock that has been one of the best investments on the TSX this year. It's hard to bet against Shopify at this point, as the stock has proven to be resilient against even the heaviest of criticisms.

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