



Should You Buy Shopify Inc. Ahead of Earnings?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) is expected to release its fourth-quarter results in mid-February, and it might be a good idea to buy before then. The stock has been stuck in a range since October when a critical report was released that alleged the company's business model was flawed. While the report was [unfounded](#), it nonetheless sent the stock down, and it has yet to fully recover.

The stock price has run into a ceiling at \$150, and although it is up more than 10% to start 2018, it's unlikely to break that barrier — yet. What the company needs is another strong quarter, and with Q4 right around the corner, a good result could remind investors why Shopify is still a solid buy. Nothing puts controversy away like solid results, and Shopify has delivered in the past.

In its most recent quarter, Shopify's sales were up more than 72%, and in the last fiscal year the company's sales rose by 90%. From \$50 million in sales in 2013, Shopify has grown its top line to nearly \$400 million in 2016, and in the last four quarters, sales have totaled over \$580 million. A strong quarter to cap off the year could be just what Shopify's stock needs to break through \$150 and [potentially reach \\$200](#) before the year is over.

Valuation is high, but not absurd

Shopify's valuation is very high, and it's not a stock that would be suitable for value investors. When you compare it to **Amazon.com, Inc.** ([NASDAQ:AMZN](#)), its price-to-sales ratio is significantly higher than the tech giant's. A lack of profitability should also raise concerns, as the company has been in business several years and it is still unable to stay out of the red.

While these concerns are valid, what makes Shopify a great growth stock is that its business can be used by anyone that is trying to sell anything online, giving it tremendous potential in the marketplace. After partnering with **eBay Inc.** ([NASDAQ:EBAY](#)) and Amazon stores, Shopify can reach even more consumers than it did before, and that could accelerate its growth even further.

Prior earnings results

In Q3, the company's results were strong, but concerns that Shopify did not address the issues raised

relating to its business model kept the stock from gaining much momentum. If we go back to Q2, the stock was trading ~\$115, and the results would eventually propel the stock to over \$150. Prior to Q1 results, the shares were trading near \$106 and a week later would reach above \$120.

Why the stock is likely to continue to rise

There is no reason to expect at this point for Shopify's success to slow down, and it's clear that the stock has been weighed down by undue negativity for the past several months.

A good quarter can put a lot of that pessimism in the rear-view mirror once and for all and can put the stock back on the ascent it was on for much of 2017. Although investors will be paying a premium for Shopify, there are a lot of positives that make the stock a great long-term buy.

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